

**Report of the  
Controller and  
Auditor-General**

*Tumuaki o te Mana Arotake*

**Reporting  
Public Sector  
Performance  
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## [Appendix One](#)

- In [paragraph 202](#) we say that external accountability reporting that is aimed at general external users should be of good quality and, among other things, should be prepared in accordance with generally accepted accounting practice. [Appendix One](#) explains why and reproduces extracts from standards that apply to reporting non-financial information.

## [Appendix Two](#)

- In [paragraph 213a](#), we refer to an article by Peter Barberis. He suggests that the parameters of accountability (“zones of responsibility”) are increasingly overlapping. In [Appendix Two](#) we adapt a diagram of accountability relationships in a central government context and expand on aspects of accountability.

## [Appendix Three](#)

- If you are reporting non-financial information for the first time, have a look at our [Improvers’ Guide](#). We suggest fundamentals that should be considered first, and then summarise performance reporting from the top down and the bottom up in a few pages.

## **FIGURES**

[Figure 1](#) - Elements of a comprehensive model of performance

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# Part One

## Performance – A Comprehensive Concept

### Why did we write this report?

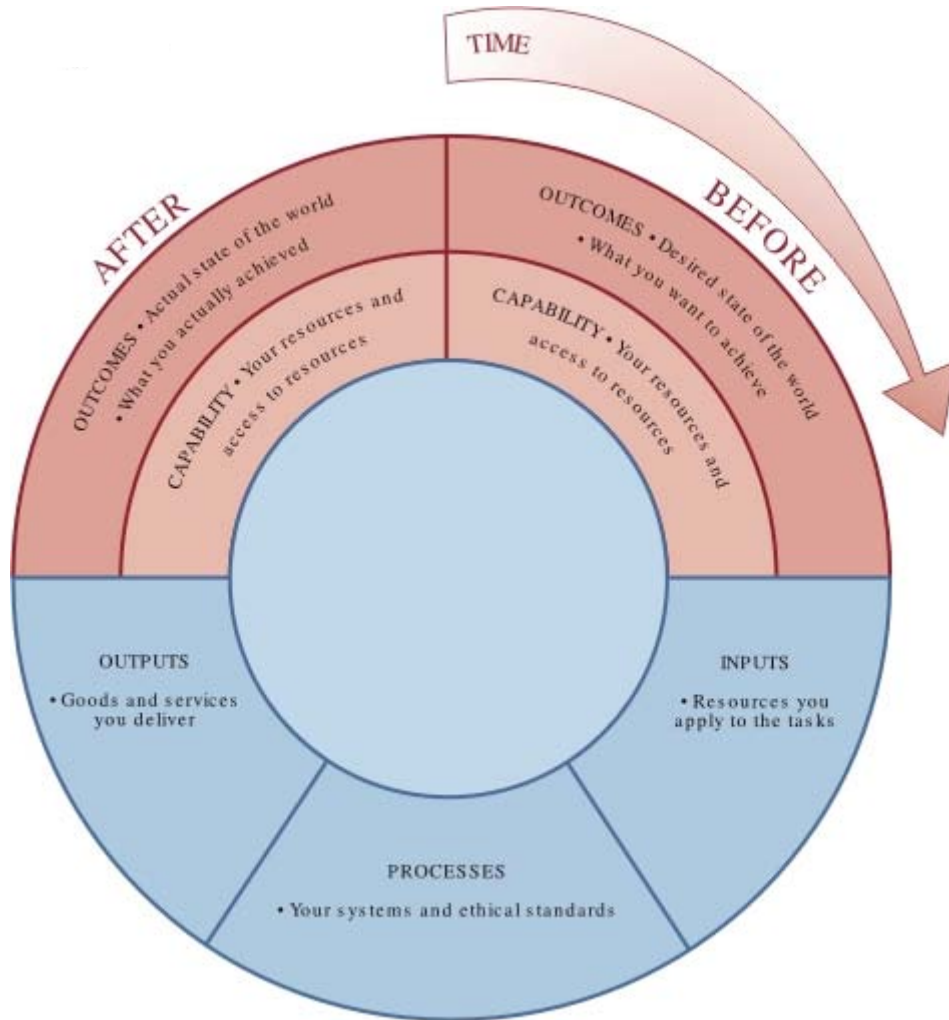
- 101 We wrote this report to stimulate discussion about how public entities set direction, and measure and report performance. We wish to contribute to improvement in public entities' accountability for their performance to Parliament, ratepayers and the public.
- 102 *A framework for external accountability reporting must:*
- *take all elements of performance into consideration for potential reporting; and*
  - *report performance elements that stakeholders want to know.*

### Performance is a comprehensive concept

- 103 When we talk about *performance* in the public sector, we mean a comprehensive concept that includes both financial and non-financial aspects of the following:
- results – what a public entity achieves;
  - the level and quality of the entity's interactions with the public; and
  - the costs of these results and interactions.
- 104 Each of these needs a little explanation. First, performance comprises *results* that are:
- a public entity's *actual outcomes or achievements* (the impact of government activities on the community); and
  - how the community is better or worse off as a consequence of the public entity's activities. This includes any *benefit* or *burden* of impacts on the community as a consequence of a public entity's results.
- 105 Second, performance comprises *interactions with the public*:
- *processes*, including the systems and operations of public entities and their associated standards of ethical behaviour; and
  - the delivery of goods and services (*outputs*) to the public.
- 106 Thirdly, performance comprises *costs*:
- Public entities receive public funds to deliver certain levels of service.

- Delivering more now may mean the capability to deliver in the future is lost or impaired. The *cost of performance* includes any *decline in public entity capability*.
  - *Inputs* are the resources applied to the tasks, the cost of which is met by the taxpayer or ratepayer.
- 107 When public entity performance is being measured and reported for accountability purposes, it is usually discussed using the terms: *outcomes, capability* and a transformation cycle – *inputs, processes and outputs*. These are the *elements of a comprehensive model of performance*.
- 107a Performance is also often referred to in terms of *economy, efficiency* and *effectiveness*. Results, interactions and costs can be compared to form judgements about performance using this terminology:
- *Economy* is acquiring inputs or capability at an optimal cost (not necessarily at cheapest dollar cost).
  - *Efficiency* is obtaining the most outputs from given inputs or requiring the least input for given outputs.
  - *Effectiveness* is achieving desired results. It can be thought of as either operational effectiveness (meeting targets for delivery of outputs) or policy effectiveness (achieving desired outcomes).
- 108 Performance elements need to be integrated and managed as a whole. Focusing on separate elements at the expense of others gives an unbalanced view of performance. For example:
- too much concentration on outputs can result in ineffectiveness (achieving the wrong things) or put capability at risk (achieving in the short term at the expense of the long term); and
  - too much focus on capability and process can put achievement at risk.
- 109 Reporting at regular intervals is essential for effective accountability. Entities also need to compare their *planned performance* with their *actual performance*. Performance reporting needs to show:
- a forecast, at the start of a period, of all elements – including available capability and desired outcomes; and
  - a report of actual performance, at the end of a period – including entity capability and actual outcomes (what has been achieved) as well as inputs, processes and outputs for that period.
- 110 These elements of performance, including the passing of time, are a *comprehensive model of performance*, shown in [Figure 1](#).

Figure 1  
Elements of a comprehensive model of performance



### Taking account of uncertainties

- 111 Public entity performance is affected by many factors, including:
- constant social and environmental change;
  - the long-term nature of many public outcomes;
  - community, entity and political uncertainties; and
  - circumstances where public outcomes are not controllable by public entities, but are only subject to their influence.
- 112 Desired outcomes (what a government or an entity wants to achieve) and the means to work towards them (how to achieve them) can rarely be completely certain. Identifying uncertainties and developing strategies to address them – and reflecting these in external reports – provide the foundation of performance. They underlie an entity’s monitoring and management of events that require choices to be made, such as shifting resources or changing processes.
- 113 Any report on performance needs to make explicit reference to:
- how uncertainties have been addressed; and
  - the strategies for addressing risks<sup>1</sup> or using opportunities, should they arise.
- 114 A performance **forecast** needs to discuss an *assessment of future events* and *the strategies to be adopted should those events occur*. A report of **actual** performance needs to report:
- those events that did occur;
  - how management implemented the strategies; and
  - how learning from events and actions will be used in the future.

### Allowing for differences

- 115 The elements of a comprehensive model of performance are all relevant to any public entity’s performance. But they are not necessarily equally relevant to every entity. For an external accountability report of performance, all elements need to be considered for reporting – but they may be included to varying degrees in the report.
- 116 The emphasis on each individual element will vary between different types of entity – for example:
- capability is critical for policy ministries; and
  - public entities with high levels of interaction with the public are likely to focus on processes and outputs.
- 117 The extent to which performance elements are reported on externally will also vary with circumstance. The external environment in which

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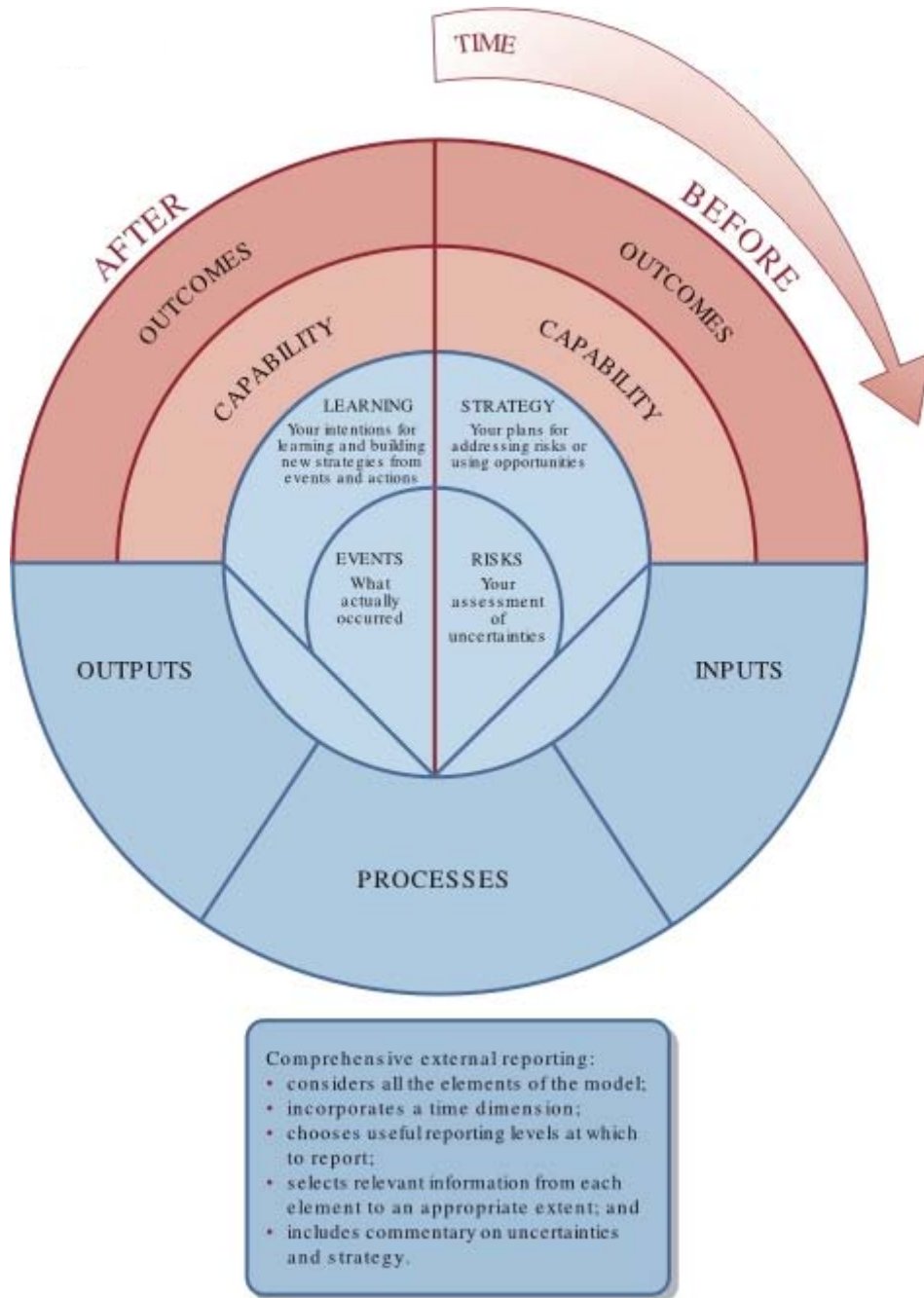
<sup>1</sup> Paragraph 313a provides a definition of *risk*.



an entity is working will vary as events change the necessary emphasis on performance elements, such as outcomes and capabilities. An entity's internal conditions will also change, as will its internal capability requirements.

- 118 Statutory compliance requires reporting on an entity by entity basis. However, a reporting entity as defined by statute will not necessarily be the best level for reporting performance, and sometimes defining a useful reporting entity is difficult. Performance can also be forecast, managed or reported at different levels of the public sector, such as:
- outputs provided, that is, goods and services delivered;
  - a set of outputs which together make up a programme of service delivery;
  - the efforts of a single public sector entity;
  - the combined efforts of entities within a sector;
  - efforts of entities across several sectors to contribute to one policy initiative; or
  - the whole of government.
- 119 To summarise, comprehensive external reporting:
- considers all elements of a comprehensive model of performance;
  - incorporates a time dimension;
  - chooses useful reporting levels at which to report;
  - selects relevant information from each element of the model to an appropriate extent; and
  - includes commentary on uncertainties and strategy.
- 120 These are the *elements of a comprehensive model of performance reporting* as shown in [Figure 2](#).

Figure 2  
 Elements of a comprehensive model of performance reporting



## Why measure performance?

- 121 The performance elements in [Figure 2](#) are measured for multiple, but inter-linked, purposes – including to:
- Develop *policies* about which outputs are likely to lead to what outcomes.
  - Provide internal managers with *information for making decisions*.
  - Report to external stakeholders for *accountability* purposes. In this report, we focus on external accountability reporting.

### How do you go about measuring performance properly?

- 122 Reliable measurement is a necessary base for good performance reporting, and requires:
- the development of measurement *concepts and standards*; and
  - good mechanisms for developing consensus on measurement rules.

- 123 *Financial* measurement and reporting is well developed, although issues within the financial reporting framework (such as cost allocation) and emerging issues (such as recording and valuation of intangible assets) continue to demand attention. Financial measurement and reporting have:
- well-developed concepts of –
    - stocks (financial position; assets, liabilities and wealth); and
    - flows (financial performance; revenue, expenses and their net impact);
  - a uniform measurement unit (currency);
  - standardised measurement rules (called generally accepted accounting practice); and
  - effective mechanisms for further development of financial performance reporting, including recognised national and international standard-setting bodies.

- 124 *Non-financial* performance lacks the type of measurement and reporting framework that has developed for financial performance, and preparers of external performance reports need to continue to develop measurement and reporting frameworks. The technical literature on measurement of some elements, such as outcomes and capability, is large.

- 124a However, non-financial measurements often cannot be readily combined and compared, making it difficult to judge performance consistently. For example:
- Public entities undertake *diverse activities*. Finding comparable models for measurement and reporting often requires considerable research or adaptation of overseas information.
  - There is no common *unit of achievement*. Non-financial activities are reported on with a range of measurement units.

- 125 Internationally, considerable work is being done on issues in reporting performance in the public sector.<sup>2</sup> Common themes across this work include a focus on the objectives for reporting, stakeholder information needs, and the balance of financial and non-financial information. Terminology may vary, however, with different jurisdictions using terms compatible with their own structures and statutory requirements.
- 126 The Institute of Chartered Accountants of New Zealand has also been working on reporting performance. The Institute published an *Invitation to Comment on The Reporting of Purchase Performance* in 1999. Work in progress includes a *Technical Practice Aid* to provide guidance on statements of service performance and further work on a framework for non-financial reporting.
- 127 How, then, do you go about measuring performance properly? An essential requirement for proper measurement of performance is widespread acceptance of a common measurement and reporting framework.

## Why report performance?

- 128 The public sector needs to report performance externally, and to do it well, in order to:
- allow external stakeholders to make informed judgements about public entity achievements with public resources;
  - reflect the intent, as well as the letter, of legislation and political direction; and
  - set an example in complying with statute.

### What is needed to report performance well?

- 129 There are intrinsic incentives to report performance well. These include:
- better regard from external stakeholders, through being seen to respond well to the increasing scrutiny of public spending;
  - enhanced reputation within the New Zealand public sector; and
  - recognition as a leader, including international recognition, for development work.
- 130 However, on their own, intrinsic incentives are unlikely to improve performance reporting significantly. Governing bodies, managers,

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<sup>2</sup> See, for example:

- Report of the Auditor General of Canada to the House of Commons, Chapter 19: *Reporting Performance to Parliament: Progress Too Slow* (December 2000); and
- Report by the Controller and Auditor General (UK), *Measuring the Performance of Government Departments* (March 2001).

preparers and central agencies need to find new ways to encourage the development of performance reporting. This might include:

- creating incentives which benefit the entity;
- removing disincentives to good external reporting of performance;
- championing development efforts; and
- encouraging experimentation.

131 What is needed to report performance well? A core requirement is the development of suitable incentives to foster better reporting.

## **We recommend...**

132 ... **to those responsible for external accountability reports**, that you:

- take account of all elements in a comprehensive model of performance reporting, such as in [Figure 2](#), and reflect them (as relevant) in external reporting; and
- develop reliable [measurement](#) in relevant areas.

133 ... **to governing bodies, managers, and central agencies**, that you:

- work towards acceptance of a common measurement and reporting framework; and
- find new ways to encourage good external [reporting](#) of performance.

# Part Two

## Being Accountable

### What do public entities currently report externally?

- 201 External accountability reporting:
- is framed to meet accountability needs for general external users;
  - includes both financial and non-financial information; and
  - must comply with both statutory requirements and applicable reporting standards.
- 202 External accountability reporting that is aimed at general external users should be of good quality and meet some basic requirements:
- Statutory reporting obligations – the Public Finance Act 1989 (PFA), the Local Government Act 1974, and/or entity-specific statutes.
  - If not otherwise required by statute, be prepared in accordance with generally accepted accounting practice (including reporting standards). [Appendix One](#) explains why, and reproduces extracts from standards that apply to reporting non-financial information.

#### Government Departments

- 203a In central government<sup>3</sup>, classes of outputs are grouped into Votes for the annual *Estimates of Appropriations*. For each Vote, the *Estimates* must identify the link between outputs and the Government's desired outcomes (PFA s. 9(2A)(f)).<sup>4</sup> One department may administer several Votes, and amounts appropriated within a Vote may be spent by many different organisations – including Crown entities.
- 203b **If** you are a government department, **then** you are required by the PFA to:
- provide, as part of your forecast financial statements, an annual *statement of objectives* forecasting your performance for each class of outputs; and
  - report, as part of your annual financial statements, your *actual* performance against forecast in a *statement of service performance* (SSP).

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<sup>3</sup> This report does not cover the performance reporting requirements for State-owned enterprises and local authority trading enterprises. Nor have we repeated here the existing laws, regulations and standards that specify which information is to be reported where and in which type of report.

<sup>4</sup> In our *Third Report for 1999, The Accountability of Executive Government to Parliament*, we discussed how this link could be improved (paragraphs 4.002 to 4.026).

203c The outputs of departments are aligned with Government priorities through the output agreement between ministers and chief executives for the supply of services by a department. Output agreements themselves do not form part of external accountability reporting. However, Select Committees may look at output agreements as part of their examination of the *Estimates* and during financial reviews. Output agreements can become public when reviewed by the Committees or otherwise through requests under the Official Information Act 1982.

203d In the *Estimates*, desired outcomes are specified for a Vote, but many organisations (not just departments) deliver many outputs for those outcomes (a many-to-many relationship). Although links between outputs and desired outcomes are described for each Vote, individual departments are not required to forecast how actual performance on outputs will contribute to desired outcomes. One effect of this is that the *Estimates* often do not show clearly how outputs will contribute to desired outcomes.

203e The State Services Commission and the Treasury, together with other departments, are working to enhance the external accountability reporting of government departments. We discuss this further in [paragraph 327](#).

#### Crown Entities

203f **If** you are a Crown entity,  
**then:**

- Different requirements apply depending on whether a Crown entity is listed in the *Fifth Schedule* or the *Sixth Schedule* to the PFA, and what is required in its own legislation.
- In forecasting performance, only Crown entities listed on the *Sixth Schedule* are required by the PFA to provide an annual *forecast* of performance through a *statement of intent* (SOI). Those also on the *Fifth Schedule* include a *statement of objectives* in their SOI.
- Where Crown entities are listed only on the *Fifth Schedule* they include a *statement of objectives* and a *statement of service performance* in their annual report.

203g Examples of different current reporting requirements are:

- Crown entities listed in the *Fifth Schedule* must specify a statement of output objectives for the classes of outputs to be produced (PFA s. 41D (1)(h));
- the Minister provides schools (Crown entities listed in the *Fifth Schedule*) with an exemption from preparing an SSP (PFA s. 41A);
- Crown entities listed in the *Sixth Schedule* must report against the SOI in respect of financial performance only (PFA s. 41I(2)(a)); and
- non-financial performance information need not be reported by all Crown entities (for example, Crown Research Institutes) .

- The requirements for District Health Boards are discussed in [paragraph 570](#).

203h **If** you are either a government department or a Crown entity, **then** your current performance reporting tends to over-emphasise outputs. Under existing legislation, you do not have to forecast or report a long-term financial strategy for the stewardship of significant public assets and liabilities.

Local Authorities

203i **If** you are a local authority subject to the Local Government Act 1974, **then** you are required to:

- provide an annual forecast of your performance in your Annual Plan;
- consult with your community on its preparation;
- prepare a long-term financial strategy for a 10-year period, at least once every three years (an asset management plan is usually prepared in the course of doing this, as a matter of good practice); and
- report your actual performance against forecast, including outcomes.

204 Some public entities – for example, local authorities – report on aspects of non-financial performance (such as *organisational capability* and *risk*) in parts of the annual and strategic planning reports mentioned above. Government departments and Crown entities are not required to report on organisational capability and risks, although some choose to report additional information on these topics.

204a Local authorities are required by their legislation to consult stakeholders in certain circumstances. Forthcoming local government legislative reform is likely to place consultation even more in the centre of decision making. For other public entities, consultation requirements tend to be the exception rather than the rule in enabling legislation.

Working towards better practice in accountability reporting

205 The best of the current requirements for external accountability reporting, if taken together, would provide a reasonably comprehensive report to meet many of the information needs of stakeholders. For example, among the performance reporting requirements for the different types of entities listed in [paragraph 203](#) are all of the following:

- forecasting both financial and non-financial performance elements;
- reporting actual performance compared to forecast;
- a time horizon longer than one year; and



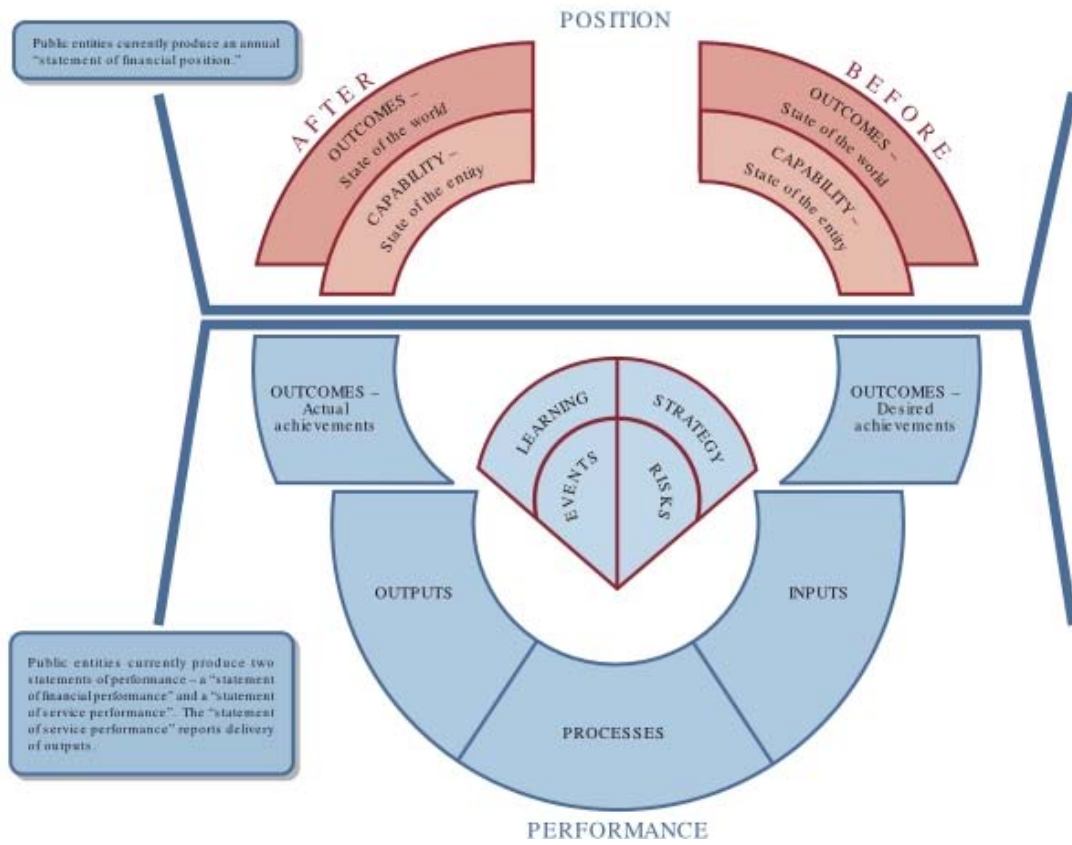
- consulting with stakeholders.

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[Figure 3](#) shows how a comprehensive model of performance might be translated into publishable external accountability reports.

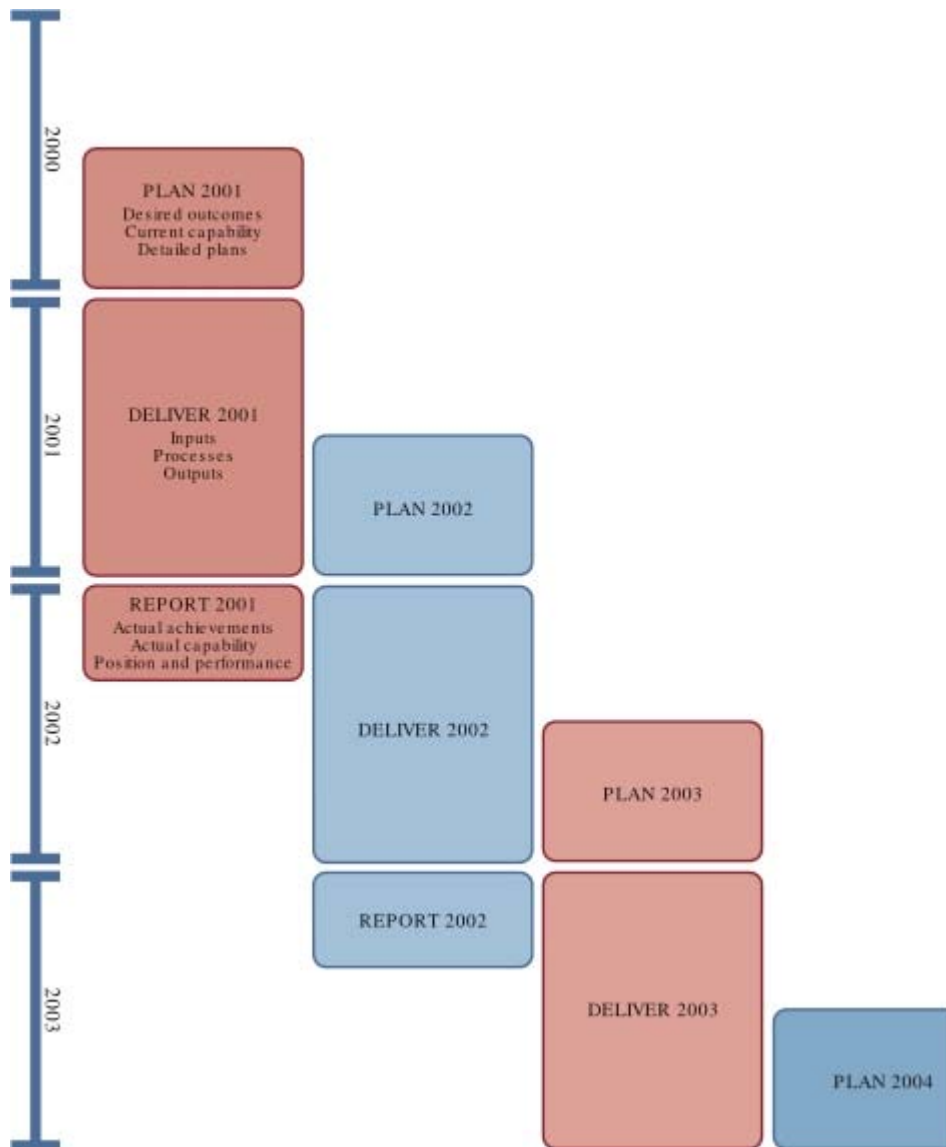
- A *forecast position statement* is shown in the top right quadrant, a *closing position statement* in the top left. An entity's position at beginning and ending points in time is thus shown in the top half of Figure 3. The annual performance of an entity throughout the period of time is shown in the bottom half.
- A *forecast position statement* contains predictions about desired outcomes. Management plans – predicted events (risks and opportunities) and strategic intention – belong in forecast statements. *Capability forecasts* would show expected changes in capability.
- A *closing position statement* shows what happened in the past year – outcomes achieved, events that occurred, and the lessons learned and consequences of management actions taken. A *closing position statement* is also the opening statement for next year – for example, capability levels at the close of the year are the beginning levels for next year.
- Resource inputs, processes used throughout the year, and the outputs delivered, could all be reported in an overall *performance statement* for the year.

Figure 3  
 A statement of position and a statement of performance



- 207 Any reporting period is a convention – the usual external reporting period is a year. A reporting entity needs to be able to report on annual performance as well as outcomes achieved. Developing and reporting against *intermediate outcomes* can help show progress towards longer-term outcomes. We discuss intermediate outcomes further in [paragraph 308](#).
- 208 To illustrate the effects of a conventional reporting year, [Figure 4](#) puts the steps of planning, delivering and reporting on a timeline, showing two results:
- First, that there is really only one ‘position’. An entity’s position at the close of a year (for example, 30 June) is its position for the start of the next year (in this instance, 1 July).
  - Secondly, that, before one reporting year has finished, planning documents are usually prepared for the next. For example, Annual Plans (in local government) and Forecast Reports (in central government) for the next year must be prepared some months *before* the end of the current year and the preparation of the current year’s Annual Report.

Figure 4  
The cycle of planning, delivering and reporting



209 Elected representatives in both central and local government, and staff in agencies with guidance responsibilities,<sup>5</sup> are in a position to make a key contribution to performance reporting.

210 **We suggest that central and local elected representatives and guidance agencies should:**

- **encourage comprehensive performance models to be used in external accountability reporting;**
- **support the use of a multi-year period for external accountability forecasting and reporting requirements (for example, government departments and Crown entities); and**
- **require additional performance elements in external accountability reporting – such as reporting on uncertainties, strategic choices, and capability.**

### **As performance and accountability become more complex, external accountability reporting needs to change**

211 *Accountability* for actions taken implies an obligation:

- to report on those actions (and usually their consequences); and
- to accept responsibility for those actions and their consequences.

211a Accountability determines the right to know.

- Among your stakeholders are those to whom you are required to *give an account* – those who oversee your organisation, or who have a right to receive explanations of what you have done or delivered.
- These stakeholders may also *ask you to account* for your actions, and their consequences.

211b Accountability is also about decision-making. You report to stakeholders who have a right to direct you to take certain decisions and actions.

- You may *hold out to account (offer or make a commitment)* to some stakeholders. This might be in a formal document, such as a contract, and a subsequent report against that contract.
- Stakeholders can then *hold you to account (make a demand)* to ensure that these commitments were performed, or to penalise non-performance.

212 A workable accountability system usually has simplifying assumptions. In New Zealand these include:

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<sup>5</sup> For central government these “guidance agencies” are the central agencies – the Treasury, the Department of the Prime Minister and Cabinet, and the State Services Commission – and for local government the Department of Internal Affairs (which prepares legislation and guidance).

- the public sector generally uses *agency theory* terms (principal, agent, contract) to describe accountability; and
- the conceptual model is largely *linear*. Entities are seen as discrete units and performance can be established for each, concentrating on outputs.

213 However, accountability is more complex than agency theory reflects. Increasingly, accountability has many-to-many, rather than linear linkages. Some of these many-to-many linkages are:

- a number of entities working towards their own outcomes, where the outcomes together will also achieve a complex overall outcome;
- multiple entities each contributing one part of a shared outcome;
- stakeholder interest in the collective performance of multiple entities, a sector, or multiple sectors;
- previously unidentified stakeholders;
- world-wide considerations, such as international group or global commitments; and
- integrated communications technology and shared information networks.

213a [Appendix Two](#) reproduces a diagram from an article by Peter Barberis. His article is written in the context of United Kingdom central government. He suggests that the parameters of accountability (“zones of responsibility”) are increasingly overlapping for (using New Zealand central government terminology) both ministers and chief executives.

214 One view of accountability is that the content of a report should be confined to matters which are within the control of the preparers and for which they are directly accountable. However, this interpretation of accountability can deprive stakeholders of important information. Our view is that accountability reporting should include both:

- Information related to direct accountabilities. Preparers can be held accountable for matters under their control.
- Information related to wider accountabilities and context. Preparers should provide additional information in order to explain the external conditions affecting their performance.

## **What would best practice in accountability reporting look like?**

215 Best practice in external accountability performance reporting would reflect all the following elements:

- a comprehensive model of performance;
  - a properly set direction;
  - good measurement systems; and
  - accessible reporting of significant information;
- while meeting cost-benefit tests.

216 Good performance reporting also takes a broader view than individual entities. New Zealand's current performance reporting framework is entity-based; an ideal framework would take account of and report not only entity but also sectoral, cross-sectoral and whole-of-government performance.

*A comprehensive model*

217 The best external accountability reporting draws selectively from a comprehensive set of performance elements to identify, measure and report those performance elements of interest to stakeholders. Compliance with statutory performance reporting requirements is essential, but statutes do not limit or prohibit enhanced reporting.

218 Reflecting a comprehensive model in external accountability reporting also requires a range of specific capabilities. Organisational capability can be built in respect of:

- *understanding of operations and of stakeholder information requirements*, in order to identify which elements of performance should be reported and which performance indicators or measures will be relevant to report on those elements;
- *technical knowledge*, to identify needed data or design data collection systems;
- *capacity* (people or system capacity), to collect the necessary data; and
- *data collection* over a period of time, and specific retention of data during change (such as entity restructuring).

219 Building organisational capability in these ways has potential benefits for both external reporting and internal management. There is also potential benefit for departments with responsibilities for monitoring other agencies, or for policy ministries with lead roles in sector development.

220 Elected representatives have a key role to play in creating demand for the use of broader models. Members of Parliament and local authority councillors need to consistently encourage general use of comprehensive models of performance. In particular, elected representatives can insist on best practice in application of the models, such as requiring well-specified links between outputs and outcomes.

*A properly set direction*

221 Performance reporting needs to start from the *direction set* for the entity and, increasingly, for a sector or across sectors. [Part Three](#) covers setting direction, which:

- requires inclusive consultation processes which cater for suitable communities of interest; and
- provides guidance on what data to gather and what to ignore.

### Good measurement systems

- 222 Performance reporting needs to be based on ***good performance measurement systems*** that collect relevant and reliable data. Good quality measurement and data collection provides an essential resource from which performance information can be generated. Good performance measurement needs:
- the capability to produce appropriate sets of information for a variety of stakeholders; and
  - an enhanced set of data from which as yet unspecified future questions can be answered.

- 223 [Part Four](#) provides an overview of measurement issues and requirements.

### Accessible reporting

- 224 The ***reporting itself needs to be accessible and flexible***. Current external accountability reporting is not only entity-based, it is static, paper-based and driven by statutory timetables. In [Part Five](#) we discuss development of performance reporting through:
- tailoring ways of reporting to suit different issues;
  - making better use of technology to allow users to seek the detail they desire; and
  - using technology to provide both entity-based reporting (overviews as well as access to customised detail) and cross-entity or whole-of-government reporting.

### Cost-benefit matters

- 225 External reporting in the public sector is driven by principles of accountability for performance to taxpayer and ratepayer audiences. However, different audiences have a range of information needs, which can only be met with varying degrees of success by a single report.
- 226 Selecting information to include in an external accountability report is one factor in the cost of production. And deciding which information needs may be met – beyond mandatory reporting requirements – requires judgement on the benefits of providing that information.
- 227 Costs or trade-offs include:
- Increasing demands on resources. Priorities will still have to be set, and not all communities of interest can take first priority.
  - Increasing reliance on technology. Overall technology costs decline, but the skill base to use it well is uneven.
  - Increasing importance of supporting access by communities of interest. Those without access may be marginalised.



## **We recommend...**

- 228      **... to chief executives and departments with policy or monitoring responsibilities**, that you:
- Target organisational capability to monitor and report performance as a significant area for investment.
- 229      **... to elected representatives**, that you:
- Consistently encourage and expect best practice in external accountability reporting. For example, encourage the use of comprehensive models of performance, and insist on best practice in application of the models (such as well-specified links between outputs and outcomes).
- 230      **... to Ministers and central agencies**, that you:
- require multi-year external performance planning and reporting for departments and Crown entities; and
  - require additional performance elements in external accountability reporting – such as risk, strategy and capability elements.

# Part Three

## Setting Direction

### Governments are concerned with long-term outcomes

- 301 Performance reporting will only be effective in the context of the desired direction that has been set. Setting a desired direction – whether for an entity, a sector or the whole of government – provides the basis for:
- determining priorities;
  - allocating resources; and
  - assessing subsequent progress.
- 302 For a government, setting direction is about determining the long-term desired effects of its activities on society. The role of government – central and local – is to influence the conditions of society through policies and actions. A government is therefore inherently concerned with long-term outcomes, because:
- changing the conditions of society is a long-term process; and
  - the infrastructure in place to affect the conditions of society is long-lasting.
- 302a Both central and local governments publish long-term goals, but these are set and reported against in different ways.
- 302b Recent central governments have signalled long-term goals. The National Government in 1998 published its *Strategic Priorities and Overarching Goals*<sup>6</sup> and the Labour/Alliance Coalition Government in 2000 developed its *Key Government Goals*<sup>7</sup>. These are broad statements signalling strategic direction, but they are not matched by broad, whole-of-government reporting of performance. One of the roles of Parliament is to keep asking how the Government is delivering against its long-term goals.
- 302c Local government legislation requires local authorities to consider the long term in aspects of their planning. Examples of the planning and reporting requirements are in [paragraph 203](#), and the case study in [paragraph 331](#) onwards discusses this in more detail.

### Setting long-term and intermediate outcomes

- 303 Effective performance reporting would show whether the conditions of society have moved towards desired outcomes as a result of

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<sup>6</sup> *Strategic Priorities and Overarching Goals 1999-2002* (1998). Wellington; The New Zealand Government.

<sup>7</sup> Advised to all Chief Executives by letter from the Department of the Prime Minister and Cabinet, February 2000.

government policies and actions. Current reporting is often vague as to whether long-term outcomes have been achieved, for two reasons:

- preferred long-term outcomes change; and
- current performance reporting is focused on the short term.

*Preferred long-term outcomes change*

304 By definition, long-term outcomes have lengthy lead times for their achievement. Given intervening events and changes in preferences during that time, a new long-term outcome may be specified long before any demonstrable achievement towards a previous one.

305 Thus, society and governments thus do not reach outcomes, but move from one set of conditions to another – continually adjusting desired direction and long-term preferred outcomes.

*Current performance reporting is focused on the short-term*

306 New Zealand’s election cycle is three years, and elected representatives are often interested in demonstrating performance over an election cycle. However, reporting cycles are annual – by convention as well as statute, external accountability reports show annual performance for individual entities.

307 To do both – to take account of long-term outcomes and to report annual performance to show that short-term requirements have been delivered – public entities need to identify and report against *intermediate outcomes*.

308 ***Intermediate outcomes*** are results, or indicators of results, that can:

- Be measured over periods shorter than the number of years needed to achieve long-term outcomes.
- Show the extent of progress in the desired direction.
- Indicate whether the desired long-term outcomes are likely to be achieved if activities continue. The trend of performance indicators over intermediate time periods shows whether an entity is getting closer to, or further away from, a desired long-term outcome.
- Be used to forecast desired results on an annual basis.

309 Intermediate outcomes are likely to be more specific with respect to targeted groups or in terms of their effects, or to be measurable with a greater degree of confidence, than long-term outcomes. Common techniques to assist with specifying intermediate outcomes are:

- ***‘Intervention logic’ descriptions***, which describe the sequence of effects, or chain of events, from short-term activities or programmes to the eventual long-term result. The activities or programmes are annual deliverables; the eventual result is the long-term desired impact on the community; the effects in between are the intermediate outcomes.

- *Mathematical modelling techniques*, which include, for example, simulation of the relationships between activities and effects, and multivariate techniques to assist in interpreting predictions about cause and effect.

309a Some public sector organisations are already using intermediate outcomes in their external reporting. But many are not. We believe that preparers of external accountability reports need to:

- report how they incorporate the long term in setting direction for their entity performance; and
- forecast and report in a way that shows, and links together, their long-term desired outcomes, intermediate outcomes and annual performance.

*Example: Environment Canterbury*

In its latest draft annual plan for 2001-02, Environment Canterbury (Canterbury Regional Council) translates its purpose into outcomes and outputs in the current year and the next three years, and outcomes in the next ten years. This is an example of good reporting of how the entity has set direction, and identified intermediate results to be achieved.

Environment Canterbury’s planning documents can be found at [www.ecan.govt.nz](http://www.ecan.govt.nz).

See, for example, the discussion about natural hazards, at [www.ecan.govt.nz/echome/plans&reports/annplan/ap0102/natural-hazards.html](http://www.ecan.govt.nz/echome/plans&reports/annplan/ap0102/natural-hazards.html).

## **Making trade-offs**

310 Decisions about setting direction are made more complex by the need to make choices (including trade-offs and compromises). Choices arise in all decisions about:

- whether a government wishes to deliver services (for example, choices among desired improvements);
- how to provide those it wishes to deliver (for example, choices among the means to achieve goals or which level of government will provide a service); and
- how to pay for the services it chooses to deliver (funding options).

311 The direction set by a government will partly determine the choices it will make, but the choices made will also affect the direction that a government sets.

312 We consider that entities and governments need to report on their direction setting, including the choices they have made. If the underlying reasons for choices were made explicit, then stakeholders

would be better able to make an informed assessment of the direction set by the entity.

- 312a In the example taken from Environment Canterbury ([paragraph 309a](#)), the Annual Plan states that there is a trade-off between the cost of natural disaster and the cost of mitigation measures in the following statement: “*Natural disasters are costly and so are measures to avoid or mitigate them. Environment Canterbury’s approach to natural hazard management is to reconcile these two costs to achieve a net benefit.*”

## Risk and strategy deliberations

- 313 Despite the best intentions, the desired direction (what a government or an entity wants to achieve), the choices required, and the means to work towards selected outcomes (how to achieve them) can rarely be certain. Making such decisions is affected not only by complexity but also by uncertainty. Identifying **risks** and developing **strategies** to address them are means of coping with uncertainty.
- 313a A definition of risk is “the chance of something happening that will have an impact upon objectives.”<sup>8</sup> Strategies are broad ways to address risks. (See [paragraph 437](#) onwards for more on risk and strategy.)
- 314 Considering risk explicitly allows an entity to:
- judge the probability of events that may occur;
  - consider the trade-off of risks against each other;
  - forecast the predicted impact should an event occur;
  - pose possible alternate scenarios; and
  - identify where new strategies need to be developed.
- 315 Devising strategy is the consideration of preferred approaches to dealing with future events. Past actions also form part of developing strategies to address risks, because actions that have been taken in the past may:
- constrain future choices; or
  - open possibilities for different plans.
- 316 Some specific directions demand co-ordination among entities within a sector, or across sectors. The role of central agencies in central government is to co-ordinate direction setting in ways that are wider than entities.
- 317 Preparers of external accountability reports should explicitly report on risk assessment and strategy development.

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<sup>8</sup> Joint Australian/New Zealand Standard (1999), *Risk Management*. Strathfield, NSW; Standards Association of Australia. Paragraph 1.3.15.

## Using good process to set direction

318 The processes used to set direction will influence the direction chosen. Two key issues in setting direction are:

- incorporating change; and
- consulting stakeholders.

### *Incorporating change*

319 Setting direction not only needs to take account of social and environmental change but will also contribute to that change. For external accountability reporting, an entity needs to consider explaining how its direction setting has taken change into account.

320 An entity should consider reporting:

- the direction set for the entity and its own monitoring of the desired direction;
- how it takes account of a changing environment in setting its direction;
- how social and environmental change has been affected in turn by its actions; and
- whether it plans to modify how it sets its direction in future.

### *Consulting stakeholders*

321 The direction set for an entity is also shaped by the values and interests of the people involved. Good public participation ensures that communities of interest (that is, those who are affected by or interested in the activities of public entities) are involved in and can take ownership of the process and the direction set.

321a Some, but not all, public entities are required by their enabling legislation to consult stakeholders.

322 In our report *Public Consultation and Decision-making in Local Government*<sup>9</sup> we concluded that the key to good public consultation is good process. Our report can be found at

<http://www.oag.govt.nz/HomePageFolders/AuditOfficeReports/PublicConsultation/PublicConsultation.htm>.

322a Characteristics of good process are:

- having the right attitude – the process must be compelling so that interested parties will want to be involved and are confident they will be listened to;

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<sup>9</sup> ISBN 0-477-02857-8. December 1998.

- allowing sufficient time to respond for all those who want to be involved;
- being clear, with respect to the proposal, why consultation is sought, what will be done with the views expressed, and how the decision-making process will work;
- identifying all those with an interest and encouraging them to participate; and
- providing good feedback to all participants that their views are valued.

323 The level and nature of consultation needs to be appropriate for the circumstances. Consultation ranges from in-depth work with key groups to interaction with, or collective decision-making by, wider communities of interest. The more significant an issue is, the more care needs to be paid to consulting stakeholders.

324 Consultation timing is also important. Good timing brings participants in sufficiently early for them to be involved as appropriate in the above key aspects of setting direction, determining priorities, making trade-offs and risk and strategy deliberations. Good timing of a consultation process also allows sufficient time to respond for all those who want to be involved. Reporting about consultation can outline the planning, processes conducted, and key decisions formed through consultation.

## **Allocating resources**

325 Establishing intermediate outcomes, and then short-term (including annual) outputs, allows an entity to allocate its resources in ways that are consistent with long-term desired outcomes.

326 But entities must also have the necessary capability. Capability includes the resources to:

- undertake risk management and strategy development;
- deliver outputs, or sustain operational processes, for the time required to achieve outcomes; and
- maintain the ability to set direction.

## **Reporting on the direction set**

327 The Treasury and the State Services Commission, with four other departments, have now piloted an improved approach to planning and reporting by government departments. We applaud these efforts. Under their approach, a key document of accountability is the “statement of intent” which combines with other documents such as the output agreement. The documents together aim to reflect in accountability reporting:

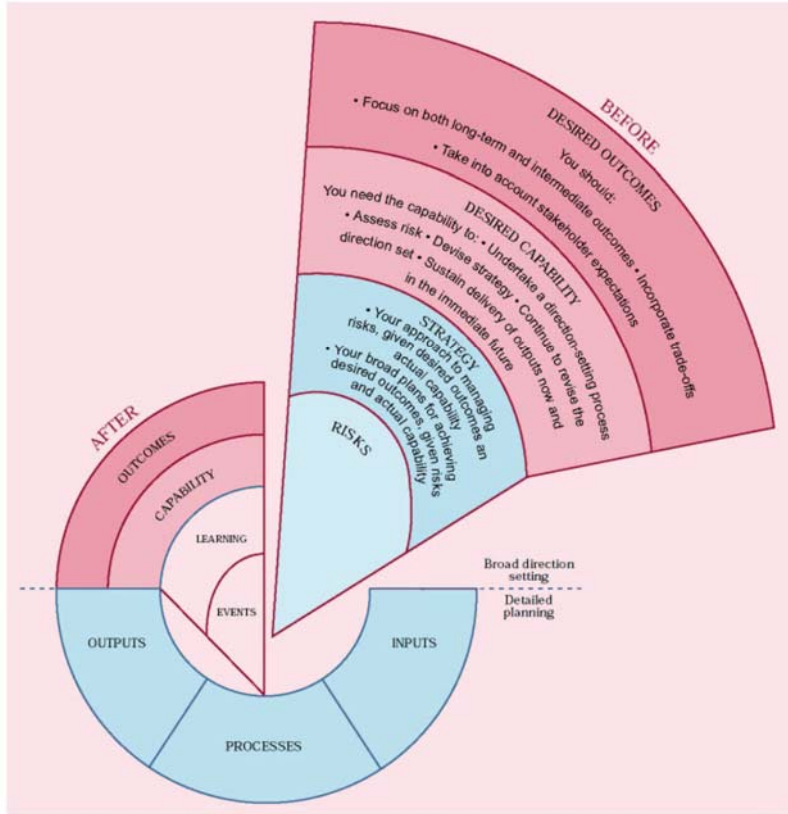
- discussion of intended direction (risk assessment, strategic planning and desired outcomes);
- how to achieve that direction (outputs and processes); and
- the needed capability.

*Example: Reporting on Direction Set – State Services Commission*

- 327a The State Services Commission (SSC) is “practising what it preaches” by preparing a statement of intent which reports on key elements of direction set. The document includes the SSC’s presentation of the linkages it has drawn between outcomes and outputs.
- 327b The SSC’s *Statement of Intent 2001*, together with its *Forecast Report for the year ending 30 June 2002*, can be viewed on its web site at [www.ssc.govt.nz/Documents/ssc\\_soi\\_dfr2001.htm](http://www.ssc.govt.nz/Documents/ssc_soi_dfr2001.htm).
- 328 [Figure 5](#) shows how the direction set by an entity should be reflected in key elements of our comprehensive model of performance reporting.



Figure 5  
 Reflecting the direction set in key elements of a comprehensive model of performance reporting



## **We recommend ...**

- 329 ... to governing bodies, managers and preparers of external accountability reports, that you:
- identify and report against intermediate outcomes; and
  - implement and report the aspects of the direction setting process described above –
    - incorporating change and consulting stakeholders;
    - making trade-offs and allocating resources to achieve short-term deliverables;
    - indicating your capability to maintain direction-setting, achieve long-term and intermediate outcomes, and sustain immediate delivery; and
    - indicating any uncertainties and the strategic choices you made in consequence of them.
- 330 ... to Ministers and central agencies, that you:
- develop specific requirements for departments and Crown entities to report the process and results of consultation with public communities; and
  - make current developments to planning and reporting performance work well.

## **Case Study: Local authorities' reporting on direction setting**

- 331 In this case study we describe aspects of the legislative framework and provide examples from local authorities' annual plans and annual reports to illustrate external reporting to stakeholders about setting direction.

### *The Legislative Framework*

- 332 The Local Government Act 1974 prescribes annual planning and annual reporting for local authorities. Local authorities are required to:
- set direction for more than one year ahead, and report aspects of their capability to achieve desired results;
  - report on short-term and long-term achievements; and
  - consult with the public.

### **Direction and capability to achieve desired results**

- 333 When local authorities publish an annual plan, the plan must include information that relates to more than one future financial year. Indicative costs and sources of funds must be given in particular terms

for the financial year to which the plan relates, and in general terms for each of the following two financial years.<sup>10</sup>

- 334 Since 1 July 1998, local authorities have also been required to prepare and adopt a long-term financial strategy.<sup>11</sup> They must produce a financial forecast that covers at least the next ten years and is updated fully at least every three years.<sup>12</sup> This requires:
- financial planning for the longer term; and
  - ensuring that current plans are aligned with the long term.

- 335 A comprehensive and accurate long-term financial strategy requires a clear understanding of the rationale for the local authority activities which provides the direction for future financial decisions. Long-term financial decisions are best driven by a sense of where the local authority is heading.

- 336 Along with setting its objectives in terms of the outcomes it wishes to achieve, a local authority must also take account of its own capability to achieve desired results. Preparation of a long-term financial strategy must:
- ensure that all costs are represented (including the decline in service potential of assets and debt servicing costs);<sup>13</sup> and
  - be consistent with available funding mechanisms, including a rationale for who should pay.<sup>14</sup>

- 337 In order to provide information related to outcomes, a local authority would need to:
- identify the effect or impact it wishes to have on its community as a result of its activities (i.e. the desired long-term outcomes), in such a way that it can demonstrate, on an annual basis, that its activities are having or have had that desired effect; and
  - forecast the annual costs and hence the funding requirements of pursuing those outcomes, within its long-term financial strategy.

- 338 However, a long-term financial strategy, and the associated asset management plans that are usually prepared in association with it, cover only certain aspects of capability. For example, the legislative framework for local government does not require local authorities to report their human and system capability.

### **Reporting on short-term and long-term achievements**

- 339 External accountability documents for local authorities include both the activities that an authority undertakes (outputs) and why those activities are carried out (desired outcomes). Performance targets and

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<sup>10</sup> Local Government Act 1974. Section 223D.

<sup>11</sup> Section 122D.

<sup>12</sup> Section 122K.

<sup>13</sup> Section 122L.

<sup>14</sup> Section 122U.

other measures by which the performance of the local authority may be judged in relation to its objectives are forecast in the annual plan. The annual plan also provides forecast information about:

- intended significant policies and objectives; and
- the nature and scope of the significant activities to be undertaken.<sup>15</sup>

340 The local authority is then required to report against the plan annually, in terms of the achievement of objectives. In the annual report, actual achievement against performance targets must be reported in an SSP.<sup>16</sup>

### **Consulting with the public**

341 A local authority's annual plan must be prepared in consultation with the public, using the special consultative procedure specified in the LGA. The community's wishes must also be taken into account in producing the long-term financial strategy.<sup>17</sup>

### **Examples of Local Authority Reporting about Aspects of Setting Direction**

342 The local government external accountability reporting framework contains all elements of our comprehensive model of performance, although some are implicit rather than explicit.

343 The following examples show how district, regional and city councils have reported to their stakeholders about aspects of:

- carrying out direction-setting and consultation processes;
- linking the outlook for the long term and the short term;
- specifying progress towards a long-term goal; and
- showing achievement against planned results.

### **Example: Wellington City Council**

344 Many desired outcomes may be subject to influences other than the activities of the local authority. In addition, some activities of the local authority may contribute to or affect, more than one outcome.

345 Wellington City Council reporting shows one way to report a range of degrees of influence over outcomes. Have a look at the use of *control*, *strongly influence* and *influence* – see page 4 of their Statement of Service Performance on their web site at [http://www.wcc.govt.nz/publications/reports/current/01\\_annrpt/](http://www.wcc.govt.nz/publications/reports/current/01_annrpt/).

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<sup>15</sup> Section 223D.

<sup>16</sup> Section 223E.

<sup>17</sup> Section 122K.

### **Example: Wellington Regional Council**

- 346 Making financial projections for the long term requires comprehensive knowledge of:
- current capability; and
  - the implications for future capability costs.
- 347 In recent years, local authorities have committed significant resources to the preparation of asset management plans. These plans are designed to guide the decisions of local authorities by reflecting the long-term financial and service delivery implications of current decisions. They cover maintenance, renewal or replacement, and construction of assets for the future delivery of services. They provide information on the long-term capability of those assets to maintain the desired levels of service.
- 348 The Wellington Regional Council’s web site at <http://www.wrc.govt.nz/aw/pdfs/voll.pdf> is an example of reporting about guidance for future decisions, together with information about the Council’s strategic planning process.

#### **Reporting about consultation**

- 349 Our final examples show how the Manukau City Council and Wellington City Steering Group have reported on consultation processes.
- 350 The LGA requires local authorities to apply “special consultative procedures” when preparing their annual plan and long term financial strategy; namely to:
- give notice of the proposal before a meeting;
  - give public notice of the proposal, including a period for public submissions (not less than one month nor more than three months);
  - hear or consider submissions in public meeting and make all submissions available to the public; and
  - make a final decision at a meeting.
- 351 The consultation process can produce a community commitment to the long-term direction. However, balancing diverse interests within a community requires good processes. Regarding the consultation process as an investment opens the way for better communication with communities and better representation of their interests.

### **Examples: Manukau City Council and Wellington City Council**

- 352 As it is part of a **process**, much consultation undertaken is not visible in accountability documents. However, some councils are including in their external accountability reports the extent of consultation and the

processes used to consult, as well as showing how submissions were used. Both of these councils report aspects of their consultation processes.

353 Wellington City Council's publication *Our City – Our Future* reports on the results of a public consultation exercise to guide an overall strategic direction for Wellington. The document can be found at <http://www.wcc.govt.nz/policy/current/ocof/ocof.pdf>.

354 Manukau City Council undertook a major consultation exercise which is reported in its document *The Changing Face of Manukau*. It can be found on the Council's web site at <http://www.manukau.govt.nz/reports/qumarch.pdf>.

### Reporting well

355 The above examples have focused on how local authorities report about their direction-setting.

356 In general, the external accountability reporting of local authorities is detailed. The advantages of providing more detail include:

- generating community debate;
- being more explicit about service delivery levels; and
- providing better information on future funding requirements.

357 In order to provide detailed information, measurement and recording systems are being enhanced to:

- enable better understanding of asset capacity;
- support predictions about the capability to continue to deliver the required services over the long term;
- produce data to make the implications of decisions transparent to the community; and
- specify the effects of trade-offs arising from competing priorities.

358 There are also disadvantages of providing large quantities of detailed information. A large amount of information is more difficult to read and absorb. Local authorities are tending to produce "concise" versions of their accountability documents for distribution to all citizens. These summary documents vary in their nature and content.

359 One challenge for local authorities, and for all public entities, is to produce accountability documents which provide a sufficient overview of the important aspects of performance, while making available more detailed information to those who desire to make use of it. This is discussed further in [paragraph 534](#) onwards.

360 In contrast to the requirements on local authorities, no requirements exist for central government departments or Crown entities to:

- publish forecasts covering three to ten years ahead;

- forecast activities, and then report against performance targets, in terms of outcomes;
- explain their capability to achieve results;
- consult the public; or
- disclose underlying risks and assumptions in preparing forecasts.

361

In our recommendations in Part Three, we have suggested that, as applicable, preparers of external accountability reports develop their reporting along the lines of:

- incorporating change and consulting stakeholders;
- making trade-offs and allocating resources to achieve short-term deliverables;
- indicating capability to maintain direction-setting, achieve long-term and intermediate outcomes and sustain immediate delivery;
- indicating uncertainties and the strategic choices made in consequence of them; and
- reporting the process and results of consultation with public communities.

# Part Four

## Improving Measurement

### Good performance measures

- 401 Good performance measures are *appropriate* and *reliable* (in that order!). A good understanding of activities and functions is essential to decide what is appropriate. [Appendix Three](#) discusses appropriate and reliable performance measures in more detail.
- 402 *Appropriate* performance measures ensure accountability between the reporting entity and its stakeholders. Appropriate performance measures are:
- *relevant* to the interests of stakeholders;
  - *understandable*, transparent and traceable; and
  - taken as a whole, *complete* (i.e. they cover all significant activities and elements of performance).
- 403 *Reliable* performance measures are:
- neutral;
  - verifiable; and
  - a faithful representation of the characteristic being measured.<sup>18</sup>

### What is the best measurement framework for accountability reporting?

- 404 The performance elements in our comprehensive model appear in various measurement and reporting models. Using existing frameworks is a useful approach to experiment with reporting, because commentary from users and a range of existing experiences can be used to establish groundwork, for comparison purposes or to find variations adapted for public entities.
- 404a The following table summarises the extent to which the elements of our comprehensive model are reflected in the performance reporting models currently established for central government departments (we

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<sup>18</sup> These qualitative characteristics of information are also discussed in section 4 of the Institute of Chartered Accountants of New Zealand's *Statement of Concepts* (Wellington, ICANZ, 1993).



are calling this the New Zealand central government model), and for local authorities.

	<b>Government departments<sup>19</sup></b>	<b>Local authorities</b>
<b><i>Outcomes</i></b>	Overall goals reflecting long-term outcomes are set by governments	Long-term outcomes are taken into account in planning
<b><i>Outputs</i></b>	External accountability reporting focuses on outputs	External accountability reporting takes account of the relationship between outcomes and outputs
<b><i>Processes</i></b>		Consultation processes are required and may be reported on
<b><i>Capability</i></b>	No external reporting is required, although some choose to comment	Some aspects of infrastructural capability are reported in annual planning and long-term financial strategy preparation
<b><i>Risk</i></b>		Some aspects of risk are reported in annual planning and long-term financial strategy preparation
<b><i>Strategy</i></b>		A long-term financial strategy must be reported

404b Apart from the New Zealand central government model, two measurement and reporting frameworks much discussed are the ***Balanced Scorecard*** and ***Triple Bottom Line*** reporting. Public sector interest is high in these two frameworks, and the first is often used for internal management purposes. And there are yet more frameworks that, in different ways, take account of multiple attributes of performance.

404c We encourage preparers of external accountability reports to continue to experiment with different ways to measure and report performance such as those summarised below.

***The Balanced Scorecard***

405 The balanced scorecard is a multi-dimensional model for:

- aligning efforts in different areas towards a common goal; and
- identifying, measuring and reporting on key performance indicators.

405a Robert Kaplan and David Norton developed the model and have written extensively on its use. The original scorecard comprises four perspectives:

<sup>19</sup> We have omitted Crown entities from this table because they operate under a range of requirements.

- A **financial perspective**, which scores profitability. Key measures include revenue growth and mix, cost reductions, productivity improvement and asset utilisation.
- A **customer perspective**, which identifies customer and market segments where the business will compete. Measures can include customer acquisition, satisfaction and retention, and customer profitability; that is, the sustainability, in a commercial environment, of intended profit results over a long term.
- An **internal business processes perspective**, which addresses both current operations and innovation for the future. Measures can include product development as well as the delivery and servicing of current products.
- A **learning and growth perspective**, which identifies the infrastructure that the organisation needs to create long-term growth and improvement. Measures can include current as well as strategic capability, in staff skills, technology and procedures.

405b The balanced scorecard allows the user to take into account measures that convey information about both short-term and long-term performance from each perspective. Taken together, the four perspectives form a balanced view of elements of performance. However, the original scorecard perspectives tend to be profit-oriented; for example, the non-financial perspectives are still underpinned by the need to sustain profitability over the long term. In consequence, public entities sometimes develop different perspectives for a scorecard. If this is done, an entity will need to ensure that its chosen perspectives still provide a suitably balanced view of performance.

#### **Example: The Balanced Scorecard – Manukau City Council**

405c Manukau City Council is known for its use of the Balanced Scorecard model. The *Manukau City Council Strategic Plan 2001-2011* reports how the model is used – see, for example, pages six and seven of the Plan on the Council’s web site at [http://www.manukau.govt.nz/strategic\\_plan/Intro1.pdf](http://www.manukau.govt.nz/strategic_plan/Intro1.pdf).

405d The diagram at page seven of the Plan identifies the four perspectives of the Balanced Scorecard model, as used by the Council.

#### *Triple Bottom Line Reporting*

406 **Triple Bottom Line** reporting views entity activities in three dimensions:

- **economic results**;
- **social effects**, such as the social, ethical or behavioural impact of entity activities; and
- **environmental effects**, often outside the boundary of the legal entity.

406a Conventional accounting standards and financial reporting largely omit the second and third of these dimensions.

**Example: Triple Bottom Line Reporting – Landcare Research**

406b Landcare Research, a Crown Research Institute, is continuing to develop its external reporting in accordance with the Triple Bottom Line model. Landcare Research reports information on its financial, social and environmental performance in, for example, its *Annual Report* and its *Sustainability Report*.

406c Landcare Research’s *Annual Report 2001* can be found on its web site at [www.landcare.cri.nz/information\\_services/publications/sustainability](http://www.landcare.cri.nz/information_services/publications/sustainability).

Quality Frameworks

407 There are also *quality frameworks* that can be used for measuring and reporting performance. Quality frameworks are:

- guidelines designed to assess the standard of entity performance across a number of dimensions; and
- particularly used for organisational self-assessment or pursuit of improvements.

407a For example, the New Zealand Business Excellence Foundation uses a ‘quality framework’ set of criteria for performance excellence. These include elements that focus on aspects of leadership, customer and market focus, innovation and creativity as well as business results. A description can be found on the web site of the New Zealand Business Excellence Foundation at <http://www.nzbef.org.nz/main/framework.asp>

407b As another example, the State Services Commission experimented with the use of the Business Excellence Model (developed by the European Foundation for Quality Management) at an early stage of its pilot projects on capability, accountability and performance. The Commission concluded that the model was a useful self-review tool under some, but not all, circumstances.

407c A final example here is a multi-dimensional “effectiveness” framework developed by the Canadian Comprehensive Audit Foundation. We expand on this in [paragraph 408d](#).

In summary

408 The frameworks described in paragraphs 405-407 each emphasise different elements of performance. For example:

- the New Zealand central government model emphasises outputs;

- Triple Bottom Line reporting emphasises outcomes (social and environmental impacts) as well as sustainable capability; and
- the Balanced Scorecard has a broad range of performance elements.

408a But they all share the *potential* to:

- put a chosen direction at the centre of performance;
- show the resources available and consumed (capability and inputs);
- judge business systems (processes);
- specify what is delivered (outputs); and
- report results (outcomes).

408b The table below compares three of the frameworks described above: the NZ central government model, the Balanced Scorecard and Triple Bottom Line reporting. The first column of the table sets out the elements of the transformation cycle – the five points listed in paragraph 408a.

	<b>Comparing the models</b>		
Transformation cycle	NZ Central Government	Balanced Scorecard	Triple Bottom Line
Direction	Recent central governments have signalled long-term goals – as Overarching Goals or Key Priorities.	The Balanced Scorecard is a model for aligning efforts in different areas towards a common strategic direction.	TBL goals cover three dimensions.
Inputs Processes Outputs	The central government model has a strong output focus and incorporates costs, but is silent on processes. Reporting is on an accrual basis.	The model’s perspectives of <i>Learning and Growth</i> and <i>Processes</i> refer to aspects of organisation capability.	TBL reporting does not have a strong outputs focus. The model is driven by sustainability principles.
Outcomes	Linkage statements between outputs and outcomes vary.	Long-term <i>customer</i> and <i>profitability</i> perspectives are key drivers.	Social and environmental impacts receive equal focus with economic outcomes.

“Twelve attributes of effectiveness”

408c Quality frameworks are not included in the table above because they tend to vary. However, in this section we analyse one in more depth to illustrate further that such frameworks can provide an enriched view of performance.

408d The Canadian Comprehensive Audit Foundation (CCAF) developed a list of 12 attributes of “effectiveness”.<sup>20</sup> The diverse attributes show that many different measures could be reported to provide stakeholders with information about performance.

408e Managers’ judgement is still needed to choose among performance elements. Consultation with stakeholders is also needed, to learn which attributes or measures are relevant to them.

408f In the following paragraphs, we have matched the CCAF’s 12 attributes of effectiveness to the elements of our model.

### Risk and strategy

408g Our model includes two elements at the centre, risk and strategy. The following CCAF attributes of effectiveness are related concepts.

- **Management direction:** both accountability of an organisation and clarity of lines of business. The extent to which the *objectives and programmes of an organisation* are well integrated and understood by employees, and are reflected in the plans, structure, authority delegations and decision-making processes.
- **Relevance:** the extent to which a line of business continues to make sense in regard to the conditions it is intended to address. Relevance can be distinguished from appropriateness. Relevance is concerned with questioning the *legitimacy and pertinence* of a programme’s objectives.
- **Appropriateness:** the extent to which the design of a programme and the level of effort being made to implement it are logical in the light of programme objectives. Considerations include choices for pursuing public policy objectives, constraints, needs of users and administrative strategies. Appropriateness can be distinguished from relevance. Appropriateness starts with the programme objectives as given and is focused on how well the *design and delivery* of the programme suit the objectives.

### Process

408h In our model, *process* covers how entities conduct their business – their systems and ethical standards. The CCAF framework has two attributes that cover similar areas.

- **Working environment:** an appropriate work environment for employees, appropriate opportunities for development and achievement, and the promotion of commitment, initiative and safety.

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<sup>20</sup> Leclerc, G., W.D. Moynagh, J.-P. Boisclair and H.R. Hanson (1996), *Accountability, Performance Reporting, Comprehensive Audit – An Integrated Perspective*. Ottawa, CCAF. Page 139.

- **Monitoring and reporting:** key matters pertaining to performance and organisational strength are identified and carefully monitored; the results of that monitoring are reported regularly and accurately.

### Capability and Inputs

408i The performance element *capability* is reflected in attributes of the CCAF framework as follows.

- **Responsiveness:** how well an organisation *adapts to change*.
- **Protection of assets:** the extent to which important assets (key personnel, sources of supply, valuable property, agreements and important information) are safeguarded, thus protecting the organisation from losses that could threaten it.
- **Costs and productivity:** using resources to best advantage; the relationship among costs, inputs and outputs.
- **Financial results:** accounting for revenues and expenses; accounting for and valuation of assets, liabilities and equities.

### Outputs

408j The performance element of *outputs* is less directly reflected in the attributes defined by the CCAF, but they are often assumed, for example, in elements of *management direction* (the organisation's programmes), *relevance* (the lines of business), *appropriateness* (design of a programme), and *acceptance* (relating to programmes or lines of business).

### Outcomes

408k Lastly, our model – and indeed all performance frameworks – includes the performance element, *outcomes* – what an entity is trying to achieve. The CCAF framework has three attributes, all of which incorporate a flavour of outcomes.

- **Achievement of intended results:** the extent to which goals and objectives have been realised.
- **Acceptance:** the extent to which the clientele consider a programme or line of business to be satisfactory (*stakeholder perceptions*). There may be expectation gaps between achievement and acceptance.
- **Secondary impacts:** the extent to which *other significant consequences*, positive or negative, intended or unintended, have occurred.

## Choosing a method of measurement

### You can measure in different ways

#### Once-only measurement exercises

- 409 A single measurement exercise can encompass a number of activities or affected stakeholders. Once-only measurement exercises are especially useful for:
- helping develop policy;
  - assessing pilot programmes;
  - trying out measurement in a new area;
  - using an exploratory tool; or
  - focusing in depth on one area of activity.
- 409a Single measurement exercises have the advantages that they can:
- be carried out without investment in permanent measurement systems; and
  - cut across organisational lines of authority and responsibility to look at a single issue that may be handled in several areas of the entity or in several different entities.
- 409b Weaknesses include the possibilities of:
- overlooking an area or impact; and
  - failing to reach those who could take action about the results because such exercises take place outside regular monitoring and reporting routines.
- 409c Impact evaluations are one type of once-only measurement exercise. In our *First Report for 2000*<sup>21</sup>, we reported on *Impact Evaluation – its Purpose and Use*, and our major comments were:
- Few departments were undertaking impact evaluation, but a number of departments were moving towards it.
  - The main focus of evaluative activity was measuring and monitoring aspects of output performance, and reviewing delivery methods and processes in order to improve output delivery.
  - Generally, departments were conducting evaluative activity in relation to new, small and discrete policy initiatives at the margin of government expenditure.
  - There appeared to be few examples of systematic analysis of the linkages between the outputs delivered and the outcomes achieved, as in impact evaluation.
  - Departments were seldom able to reliably identify the manner in which the implementation of a policy had contributed to outcomes.

#### Cyclic measurement

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<sup>21</sup> Parliamentary paper B.29[00a], pages 99-140.

- 410 Measurement at regular intervals is good:
- if you are interested in how measurements have changed from time to time; or
  - as an economy measure if you don't wish to collect data continually.
- 410a If measurement is cyclic, there are risks that:
- measures will not record events that occur on a different time cycle; or
  - measures will always record events against a background of recurring similar conditions.
- 411 In order to make data usable, techniques such as standardising measures may need to be used, for example, to remove the effects of inflation or other time-dependent changes.

### **Continuous data collection**

- 412 Continuous data collection by permanent measurement systems is not always required. But for some activities – such as financial transactions – or some professional work – such as health care – you need to collect a set of data about every event. This requirement may be established in law, required by professional standards, or initiated because the activity is judged likely to be significant for the future.
- 412a The strengths of continuous data collection are:
- the practice of recording data becomes part of routine organisational behaviour;
  - the data is more likely to be recorded in accordance with standards or required practices, which makes it more readily usable by many people or for multiple purposes; and
  - the risk is reduced that events are not recorded, or that fictional transactions are recorded as actual.
- 412b But continuous data collection carries associated costs. These include both the initial investment of setting up a system for data collection (including setting standards and training staff) and the ongoing monitoring of the system (including continual error detection and correction). Periodic management review is also needed to assess whether a rationale still exists for collection of the data.

### **Questions about measurement and performance**

#### **How do you choose what to measure?**

- 413 Once an entity has set its desired direction, then its managers:
- know *why* they need to measure particular dimensions of performance; and



- can identify *what* dimensions of performance to measure
- 414 Performance measures are not value-neutral. The choice of measures reflects assumptions about how planned activities will lead to desired outcomes.
- 415 As soon as any decision is made to capture particular data about transactions and events, that decision also reflects assumptions, usually carefully made, that:
- the data being recorded is the best, preferred, or most suitable to record;
  - the act of recording does not change the event or transaction in any way;
  - the cause and effect relationships between policy decisions made and putting them into effect are correctly understood; and
  - the data being recorded genuinely reflect the results and, therefore, justify recording.
- 416 Any of the above assumptions may be wrong or incorrectly understood. In consequence, when data is interpreted to provide information about public entity performance, the answers may be the best available but nonetheless incomplete or incorrect.
- 417 Interpretations of data change over time. This reflects learning from research and experience as well as reinterpretation of the past. In addition, over time, stakeholders change and new questions may be asked that shed a different light on measurements. Lastly, in the public sector, there is always the possibility that measurements will be interpreted in the light most favourable to a government's or council's current policy, then re-interpreted when policies change.

### **How do you take costs and benefits into account?**

- 418 Cost and benefit judgements, including consideration of best technology use, assist in answering the question of *how many* measures to use. Two general cost/benefit constraints are that:
- the benefits to the stakeholder of knowing the data about a measure exceed the cost to the reporting entity of collecting and reporting the data; and
  - there is a net positive effect on entity behaviour from collecting and reporting data about the measure.
- 419 Costs of measurement include:
- devising measures;
  - implementing data collection systems, including correction of errors;
  - storing recorded data in a retrievable form; and
  - maintaining organisational capability to use and interpret the data.

- 420 Benefits include the use of the performance information to stakeholders, including:
- those with oversight responsibility; and
  - internal managers.

421 Measures for which the benefits exceed the costs are all potentially worth collecting. Both costs and benefits for particular measures will also change as technology changes – a factor that needs to be reflected in judgements of costs and benefits.

### **How many measures should you report?**

422 A single measure alone typically provides incomplete information, but may be used as the key measure for reporting performance externally. More information is provided by interpreting measures in context, such as:

- the ratio of one measure to another – for example, the relation between inputs used and outputs delivered is a measure of efficiency;
- trends of several measures – for example, where stakeholder need is developing compared to output delivery locations;
- progressively more detailed levels of data analysis to show underlying causes; and
- comparison among logically related measures to monitor improvement or deterioration, or compensating changes in other measures.

423 To make valid comparisons among multiple measures, you need comparable time-scales. Time is one dimension of the context of performance. In general:

- the longer the period of time, the more difficult it is to isolate the impacts of an activity or a policy decision; and
- if two or more measures are taken from the same time period, then at least they have been subjected to comparable general influences (economic, social and environmental) during that period.

### **Which measures should you report?**

424 Stakeholders want to read the vital few indicators necessary to report on diverse activities, but sufficient to give the overall picture of achievement. Possible performance measures are numerous. Choosing the vital few for reporting is driven by risks identified, strategies developed, and the direction set for the entity.

425 Performance measures that are the most useful in showing your achievements to external stakeholders are those:

- where the benefit to stakeholders of knowing a measure most exceeds the cost of collecting the data;

- that shed light on the most important issues for stakeholders, both external and internal;
- that are reported consistently internally and externally; and
- that are sufficiently summarised to indicate how entity performance is likely to achieve identified goals.

426 Identification of what is to be measured needs to take account not only of present, but also future, information needs. Future stakeholders may ask completely different questions from current stakeholders. Prediction of future information needs may be pure guesswork, or there may be some stability over time in the aspects of performance that are likely to be of interest.

427 Periodically, management needs to assess whether the data being collected remains the most relevant to collect. Judgement will be needed to identify what data to stop, and what to start, collecting

## What aspects of performance do you currently measure?

428 **Outputs** are the main focus of measurement for external accountability reporting in New Zealand today. This is because they are prominent in:

- legislative requirements; and
- performance reporting standards.

429 Outputs tend to be measured using the following dimensions:

- quality (“how good?” or “to what specification?”);
- cost (“for how much?”);
- quantity (“how much?” or “how many?”);
- timeliness (“when?” or “by when?”); and
- location (“where?”).

429a Some of these dimensions are not easy to measure, and some that are easy to measure are not always relevant to the interests of stakeholders.

### Quality

430 Stakeholders are interested in the quality of service they sponsor or receive, but quality is judged and measured in many ways. Two broad categories of quality that should be considered when measuring are:

- **Stakeholder or customer perception.** These measures of quality reflect the ‘eye of the customer’ and indicate the extent to which a product or service meets or exceeds stakeholder expectations.
- **Technical quality.** These measures of quality reflect the ‘eye of the expert.’ They report on the degree of conformity to standards and specifications, or the expectations about a product or service that an expert would hold.

- 430a To establish customer perceptions of quality you need, at least, to consult stakeholders and ask what they value. Technical quality standards require processes for:
- setting technical standards;
  - application of expert knowledge and professional judgement; and
  - peer assessment or review.
- 430b Both categories of quality may use the following to judge the standard of products or services:
- acceptability of the product or service delivered; and/or
  - speed of response or turnaround time; and/or
  - transaction accuracy.
- 430c For example, a commonly reported quality measure of policy advice in central government departments is that advice delivered has met stakeholder (or customer) expectations. But stakeholder expectations might be that the advice meets standards acceptable to policy experts. And this could require certain processes (such as stakeholder consultation, peer review, or expert research to support draft policy proposals).
- 430d Public entities' responsibilities include enforcement of regulations, monitoring of individuals' behaviour and review of standards of performance. This may require finding fault, allocating blame and making criticism. Work is required in such environments to define who the customer is and what "customer satisfaction" actually means.

### Cost

- 431 Most central government entities and local authorities report in their statements of service performance a set of output measures that includes cost of outputs. These involve cost allocations, and the validity of the measure depends on the quality of the allocation model used and the accuracy of its use.
- 431a Cost is not always easy to attribute to outputs. All cost allocation models require judgement about the most appropriate way to distribute costs over activities, and thus are always somewhat arbitrary. Allocation methods should balance the cost of determining allocations against the benefit gained from an equitable sharing of costs.

### Quantity

- 432 Quantity measures appear to be the easiest performance measures to provide. Counts of products or services provided are routinely maintained by most entities. However, quantity is not always the most relevant performance measure because the number alone of transactions or events conveys little about the service supplied or demanded.

432a Quantity measures also require clear guidelines as to what qualifies as a transaction. In financial performance, clear standards exist to guide the recognition of transactions. In the absence of an arm's-length financial transaction, guidelines are needed to determine what will count as:

- the provision of a service; or
- an interaction between the entity and the public.

*Timeliness and location*

433 Timeliness and location, as characteristics to be measured, tend to be more straightforward than quality and cost – but they may still require work to set definitions or boundaries.

*Different measures will be relevant to different entities*

433a Wilson<sup>22</sup> discusses ways in which different public entities might be classified, and the elements of performance that are relevant to those classifications.

- ***Production organisations*** are agencies in which both outputs and outcomes can be observed. Given preferred outcomes, it is possible to design and report on systems that measure progress towards these outcomes.
- ***Procedural organisations*** are agencies in which outputs but not outcomes can be observed. Because outcomes are unobservable, how the job is done (process) is more important than whether doing the job produces the required outcomes.
- ***Craft organisations*** are agencies in which outcomes but not outputs can be observed. Employee skills (capability) and shared commitment towards outcomes are likely to be important.
- ***Coping organisations*** are agencies in which neither outputs nor outcomes can be observed – there may be few or no objective, readily observed measures appropriate for the agency.

433b Many public entities will have characteristics of more than one of these classes. We have included these descriptions for interest and to illustrate that different elements of performance can be important for entities that differ in:

- type;
- situation; or
- stage of development.

433c For example, the performance of:

- a policy ministry with no service delivery functions is likely to depend more on employee capability than on processes; and

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<sup>22</sup> Wilson, James Q (1989), *Bureaucracy: what government agencies do and why they do it*. New York; Basic Books Inc.

- a public entity managing significant long-lived infrastructure requires a long-term outcome focus, and measures related to that element of performance should be reported.

## What could you measure better?

### Outcomes

- 434 In practice, measuring outcomes usually means measuring intermediate indicators towards a long-term result for the community. To measure outcomes, you need to:
- understand the impact of the activity on the community;
  - measure that in a defensible way; and
  - interpret what has changed as a result of the activity.
- 435 Measures of outcomes should:
- relate clearly to the direction set, to contribute to subsequent assessments of the extent to which the entity is moving towards the direction originally targeted;
  - record multiple dimensions of performance;
  - identify unintended costs or benefits (measurement of unintended consequences is important information in assessing success in achieving the direction set);
  - reflect explicitly the trade-offs that have been considered in risk and strategy assessment; and
  - be set as appropriate for each organisational or policy level.
- 436 A particular area of current interest is developing linkages between outcomes and outputs, to assist in devising measures of intermediate outcomes. Linkages between outcomes and outputs are not *easy* to develop. However, they are *easier* to develop:
- the closer the relationship between output (such as a service delivered) and outcome (the impact on the community);
  - the fewer the other causes that could influence the outcome; and
  - the more experience there is in trying to establish the relationship.

### Risk and strategy

- 437 Considerations of risk and strategy should be reflected in performance measures. Aspects of risk assessment and strategy for an entity can be:
- measured directly;
  - explained in the context of the entity's activities; or
  - a combination of both.
- 438 A useful definition of risk is “the chance of something happening that will have an impact upon objectives.”<sup>23</sup> In setting direction,

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<sup>23</sup> Joint Australian/New Zealand Standard (1999), *Risk Management*. Strathfield, NSW; Standards Association of Australia. Paragraph 1.3.15.

assessments of risk need to be made that consider the uncertainties the entity faces, and form part of forecasting planned achievement. Measures relevant to risk identification, assessment, and planned mitigation include:

- assessment of the likelihood of a particular risk;
- estimates of the potential impact, should that risk occur;
- choices made about mitigation measures; and
- the effects on related courses of action.

439 Identification of strategies also needs to be considered for measurement and reporting. Strategies are broad ways to address risk. As such, they may lend themselves more to discursive measures (narration and explanation) than to quantitative measures.

440 An entity can report aspects of ‘measurement’ of strategy, in both forecasts and reports. Key ways in which the entity plans to deal with the risks identified, should they occur, can be described in forecasts. In annual reports, an entity can report the choices actually made in light of the risks that eventuated. Strategic ‘measures’ can then be thought of, in hindsight, as whether a good combination of choices was made – that is, that particular intended outcomes were achieved.

#### Capability and inputs

441 A useful definition of organisational capability developed by the State Services Commission is:

*“Capability is having, or being able to access, the appropriate combination of resources, systems and structures necessary to deliver the organisation’s outputs to customer-specified levels of preference on an ongoing basis into the future.”<sup>24</sup>*

442 Capability needs to be sustained to deliver services now and in the future. Measures of capability are those such as:

- funding available;
- access to resources external to the entity;
- employees’ skills and knowledge;
- employee satisfaction and morale;
- technology and support systems;
- physical property;
- institutional knowledge, ability to innovate and flexibility (sometimes the types of measures listed above will provide data on such intangibles); and
- sustainability of entity capability (measures might range from employee training and retention to working environment and building safety).

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<sup>24</sup> State Services Commission (1999), Occasional Paper No. 13, *Measuring Human Resource Capability in the Public Service*, Wellington, page 5.

- 443 In the public sector, capability is significant at both at the entity level and in wider contexts – such as the need to deliver services jointly. Capability measures at sector or cross-agency levels can be more important than at entity level in demonstrating preparedness to deliver against broader goals.
- 444 Capability measures at an *entity level* are particularly important:
- When the state of the entity is changing. The public sector faces constant change, and change offers the opportunity to learn and develop. Negative aspects include “change fatigue”, and the loss of institutional knowledge and, sometimes, archival data.
  - For entities whose real strength lies in their employees – because human capability will not be recorded under financial accounting frameworks. Entities reliant on staff holding professional skills or institutional knowledge are those for which capability is their most important measure.
- 445 In some circumstances, the capability required to deliver in a certain area extends *across entities* or even *across sectors*. However, reporting on capability within any one entity will not reveal whether sufficient resources exist. Responsibility needs to be assigned for determining whether sufficient capability exists among a group of entities to deliver a sector-wide programme.
- 446 Capability becomes translated into inputs, because inputs are also resources. While capability is a *stock* of resources, which can be enhanced or diminished, inputs represent the *flow* of resources to activities. Financial inputs are controlled through financial management and recorded through accounting systems.
- 446a *Inputs* also contribute to assessments of *economy* and *efficiency*. Inputs are *economical* if they are acquired at *least cost*, or sometimes *best value*. Measures of *efficiency* compare inputs to outputs. Getting the greatest output for given inputs, or requiring minimum inputs for given outputs, is *efficient*.

### **Example: Capability reporting – Inland Revenue**

- 446b In its *Strategic Business Plan 1998-2001*, the Inland Revenue Department (IRD) explained that, as a result of other initiatives in the direction of the Department, changes were needed to its human resource capability.
- 446c The IRD’s capability reporting in its Annual Report includes descriptions of its recruitment and retention strategy and the processes of team leader development.
- 446d The IRD’s *Annual Report 2001* is one of the publications on its web site at <http://www.ird.govt.nz/aboutir/reports/annual-01.pdf>.



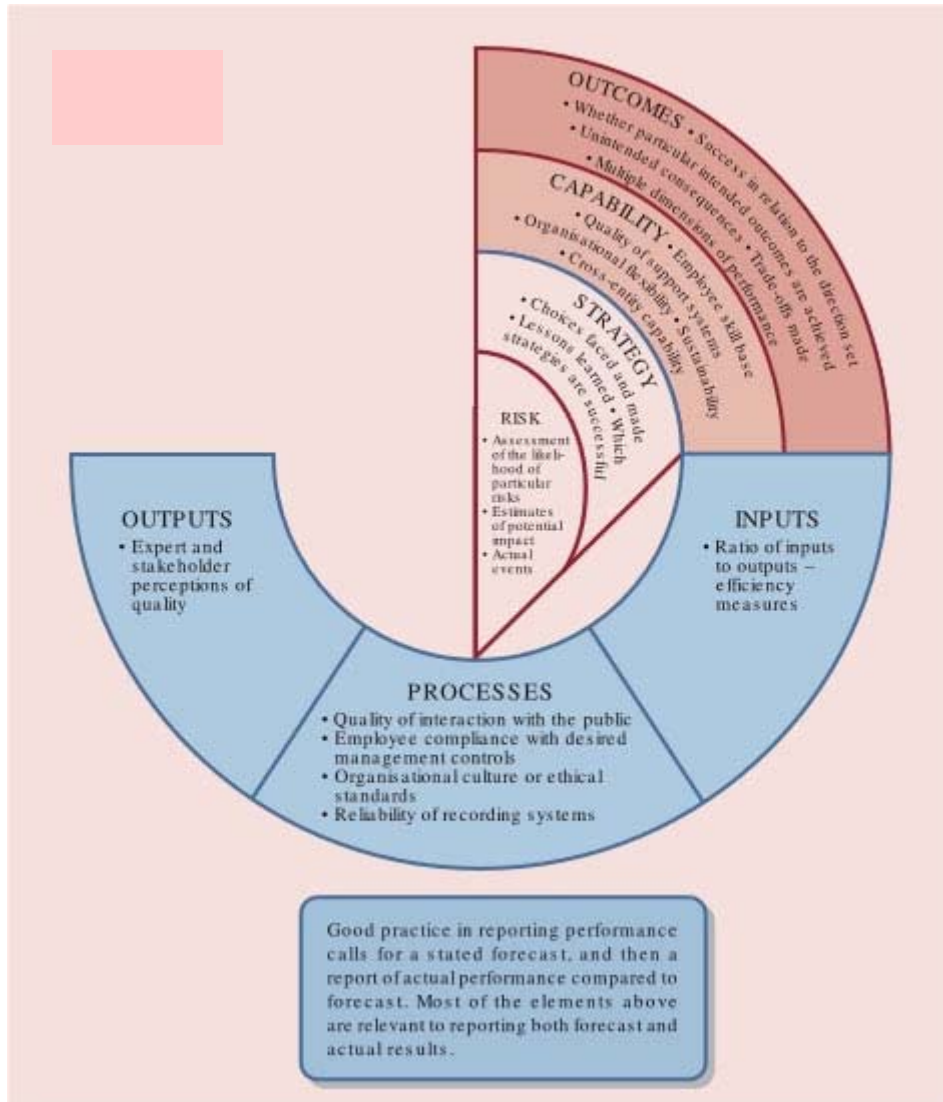
## Processes

- 447 The “processes” element of our comprehensive performance model may be:
- interactions with the public;
  - ways of conducting business internally; and
  - recording systems.
- 448 An entity conducts its business by means of a collection of processes that exist for interaction with members of the public and for internal management. Measuring aspects of these processes shows how well the entity is managing internal and external delivery of its goods and services, such as:
- stakeholder satisfaction measures;
  - employee compliance with desired management controls; or
  - organisation culture or ethical standards.
- 449 A process measure may also be significant as a proxy for an unobservable or hard-to-measure performance element. Process measures of *how the job is done* (such as delivering medical treatment) may be important where *the desired end result* (such as alleviating mental illness) is not directly or immediately observable.
- 450 Stakeholders may have specific rights, or expectations, that processes are to be applied in a certain way. Particular aspects of public conduct that are important include equal treatment in law and fair treatment in administration. Measures to monitor these expectations might include the number and trend of instances where processes fail to comply.
- 451 Good processes are also needed to record and maintain reliable data records. The reliability of recording systems is usually judged according to the ‘expert’ category of quality – for example, by:
- past error rates;
  - cross-checking data with other indicators; or
  - benchmarking against other entities.
- 452 Measurement processes can themselves be reviewed and measured to determine how well they operate, for example:
- whether data is summarised in useful ways;
  - whether measures are interpreted and used for learning as well as for management and control; and
  - what measurement processes need to be changed.

## In summary

- 453 [Figure 6](#) summarises what could be better measured and reported. As we show in the Figure, each element of the model can be developed further for forecasting and reporting.

Figure 6  
 What could be better measured and reported?



454 Performance elements will always be measured in different ways – given that entities conduct different activities, respond to different stakeholder interests, and face different technical measurement issues. However, public entities also share a considerable interest in improving measurement and reporting of performance.

455 Continued encouragement and sponsorship is needed from central agencies, by such means as formal or informal knowledge sharing networks, to:

- foster the sharing of learning to date about forecasting and reporting performance; and
- improve performance reporting for the future.

## **We recommend...**

456 ... to all involved with performance measurement and reporting, that you:

- Continue to build on learning to date in using good practice and considering what could be better measured and reported.
- Support continued effort and developmental work on:
  - **Measurement and reporting of outcomes.** Preparers need to maintain the momentum to measure and report the results of activities – not only at entity level, but also at individual sector or across-sector level, or at whole-of-government. Developing intermediate outcomes and using modelling techniques to relate results to activities will assist here.
  - **Capability measures.** Entity capability is one important area; demonstrating preparedness to deliver against broader government goals at sector or across-sector levels, is another.

457 ... to agencies with guidance responsibilities, that you:

- Strongly encourage and sponsor better mechanisms for the sharing of learning about performance measurement and reporting, both formally and informally. For example, one formal mechanism for developing public sector institutional knowledge could be by the establishment of a “Foundation for Performance Reporting”.

## **Case Study: Reporting in the criminal justice sector on aspects of measurement**

458 In this case study our main aim is to show how aspects of measurement are reported in external accountability documents. We use accountability reports and other external documents from entities in the criminal justice sector to illustrate reporting about:

- setting direction for the sector; and

- enhancements in measurement.

### Setting direction

- 459 In [paragraph 302b](#), we point out that broad statements can signal strategic direction. But they are often not matched by broad reporting of whole-of-sector or whole-of-government performance.
- 460 Successive recent Governments have specified high-level goals (desired outcomes). Of these goals, various elements have related to public entities in the criminal justice sector. The high-level goals that focus on crime prevention take as their outcomes addressing the underlying causes of offending, and building safer communities.

### **Setting direction for a sector**

- 461 In 1997 the then Government issued its Strategic Results Areas (1997-2000). Strategic Result Area 6 called for enhanced community safety for individuals, families and communities through inter-agency development of policies and delivery strategies for responding to crime, including crime prevention, management of offenders and support for victims. The strategies included a focus on addressing the underlying causes of criminal offending and an emphasis on prevention.
- 462 In late-1998 these Strategic Result Areas were replaced with a number of Strategic Priorities and Overarching Goals.
- 463 In 2000 the current Government issued a statement of Key Government Goals, and this statement was updated in April 2001. One of the Goals, *Restore trust in Government and provide strong social services*, includes a reference to building safe communities.
- 464 A Crime Prevention Unit was established in 1993 to facilitate and co-ordinate strategy on crime prevention. The purpose of the crime prevention strategy, launched in 1994, is to enhance community safety and security. The work of the Unit can be found at [www.justice.govt.nz/cpu/index.html](http://www.justice.govt.nz/cpu/index.html).
- 465 In 1994/95, the criminal justice sector was restructured, separating the Ministry of Justice from the Department for Courts and the Department of Corrections.
- 466 A strategy, *Responses to Crime*, was established, concerned with promoting the strategic direction set by the Government. This is the overarching strategy for the criminal justice sector and provides a framework for co-ordinating agency policy and activities. The strategy also links the sector to other related areas such as social policy strategies.

467 The latest review of the *Responses to Crime* strategy on the Ministry of Justice web site is for 1999. The review document, which is at [http://www.justice.govt.nz/pubs/reports/2000/response\\_crime/Responses\\_to\\_crime\\_1999.pdf](http://www.justice.govt.nz/pubs/reports/2000/response_crime/Responses_to_crime_1999.pdf), refers to the role of such a sector strategy: “*The New Zealand Crime Prevention Strategy – with the Crime Prevention Unit responsible for facilitating and co-ordinating its implementation – aims to enhance community safety and security through crime prevention. The Strategy extends beyond the criminal justice system through strong links with the broader social policy sector.*” (page 13)

468 The documents described relate performance clearly to both:

- Sector goals. The documents refer back to statements and strategies that have set a direction, and certain desired outcomes, for the sector. As we stated in [paragraph 215](#), *best practice includes reflecting a properly set direction in external accountability reporting.*
- The work of other sectors. In [paragraph 456](#) our recommendations include *Preparers need to maintain effort to measure and report the results of activities, not only at entity level, but also at individual sector or across-sector level, or at whole-of-government.*

### Enhancing measurement

469 In this section we cover:

- linkages between outcomes and outputs;
- measuring outcomes;
- data systems co-ordination;
- comparative measures; and
- relating resource allocation to outcomes.

### **Linkages between outcomes and outputs**

470 In *Choosing a method of measurement*, impact evaluations are included as a type of once-only measurement exercise (see [paragraph 409c](#)). Evaluative activity is necessarily selective because of resource constraints, which include time, cost, the availability of qualified evaluators and the availability of data.

471 The incidence of crime is affected not only by work undertaken by the criminal justice sector, but also by both general social factors and specific factors, which are known to be<sup>25</sup> correlated with offending or are believed to increase offending. Whether these factors translate into increases in crime depends on the extent to which they can be influenced by crime prevention initiatives. Relevant considerations include:

- international and domestic trends in crime;
- changing social and economic risk factors; and

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<sup>25</sup> Triggs, S (1997), *Interpreting Trends in Recorded Crime in New Zealand*, Ministry of Justice.

- changes in those demographic groups characteristic of high offending.

472 The justice sector is working to understand the linkages between its outputs and the desired outcomes. Evaluations within the sector will provide input to the understanding of which different output options may influence desired outcomes more effectively.

473 The Domestic Violence Act 1995 represented a substantial investment by the Government in new programmes. Evaluations have been jointly commissioned by the Ministry of Justice and the Department for Courts. On completion of these, there will be a body of knowledge which will help assessments of the impact of the 1995 legislation and consideration of any further policy changes. Examples include:

- evaluations of programmes for both applicants and children to assess whether the programmes are meeting their objectives; and
- an evaluation of community-based violence prevention programmes.

474 In its Annual Report for the year ended 30 June 2001, the Ministry of Justice has reported on the completion of evaluation studies. The Annual Report can be found on the Ministry’s web site at [http://www.justice.govt.nz/pubs/reports/2001/annual\\_rpt\\_01/index.html](http://www.justice.govt.nz/pubs/reports/2001/annual_rpt_01/index.html)

### **Measuring outcomes**

475 In our discussion of *What could be measured better*, [paragraph 435](#) lists the characteristics of outcome measures. We say, for example, that outcome measures should relate clearly to the direction set. As discussed in the previous section, the direction set in the criminal justice sector includes an emphasis on crime prevention.

476 The effects of crime prevention must be estimated, because they are measuring something that didn’t happen – crimes that did not occur. A surrogate measure usually reported is crime **not** prevented (crime statistics). A reduction in crime statistics is taken as a proxy indicator of the success of crime prevention programmes.

477 However, recorded crime trends can provide a distorted picture of actual crimes committed, as they may be affected by both crimes not reported and crimes not recorded. Victimization studies provide some information on the changes in reported crime, and allow some judgement to be made of the extent to which “crimes reported” is a surrogate for “crimes committed”.

### **Example: Department of Corrections**

- 478 The Department of Corrections is developing specific outcome measures to demonstrate its success in reducing re-offending, and its external accountability reporting makes clear the intention to develop new measures and report data in future. The “Recidivism Index” is a measure of the rate of re-offending, and the “Rehabilitation Quotient” is a measure of the reduction in re-offending as a result of a specific intervention.
- 479 The Department’s Annual Reports are on its web site at [http://www.corrections.govt.nz/publications/index.asp?parent\\_id=311](http://www.corrections.govt.nz/publications/index.asp?parent_id=311), with the Annual Report for the year ending 30 June 2001 available at <http://www.corrections.govt.nz/objects/ps/97/697.url.pdf>. The reports discuss a number of initiatives towards outcome measurement, including.
- evaluation reports;
  - use of the Recidivism Index; and
  - comparisons with other countries, using the Recidivism Index.
- 480 We consider that the Department’s 2001 Annual Report provides examples of good practice in performance reporting. For example:
- In [paragraph 540](#) we suggest that statistical information can be illuminated with powerful examples. The Department makes detailed statistical information available to the reader (see pages 28 and 29). However, using a diagram (page 33), it also shows the context of a particular risk (the risk posed by inmates released from prison and still on parole).
  - One of our themes is that entities need to focus on selective reporting about relevant information (see our comments in [paragraphs 424](#) and [535](#)). The Department’s Report emphasises the Recidivism Index and the Rehabilitation Quotient as significant indicators related to its stated direction.

### **Data Systems Co-ordination**

- 481 Information systems are an important support element of performance. In [paragraph 451](#), we say that *Good processes are also needed to record and maintain reliable data records.*

### **Example: Justice Sector Information Stocktake**

- 482 On the web site of the Ministry of Justice, at [http://www.justice.govt.nz/pubs/reports/2000/jsis\\_stocktake/index.html](http://www.justice.govt.nz/pubs/reports/2000/jsis_stocktake/index.html) is the Justice Information Stocktake. This is a list of the data held by agencies within the Justice sector.

- The Foreword to the 2000 Justice Information Stocktake at [http://www.justice.govt.nz/pubs/reports/2000/jsis\\_stocktake/foreword.html](http://www.justice.govt.nz/pubs/reports/2000/jsis_stocktake/foreword.html) states:  
*“The May 1995 Cabinet approved the development [of] an integrated justice sector information strategy where information collected by one agency and essential for the needs of other justice agencies can be shared by others in a secure, cost effective and efficient manner. This document provides a ‘snapshot’ of the current information holdings, how they are used and under what auspices.”*
- In the Foreword, the stocktake is described as a reference document to support
  - *“Collecting, and sharing information to support the development of policies that improve the delivery of efficient and effective services;*
  - *Avoiding unnecessary duplication of effort, and working closely together to realise the full benefits of new technologies.”*

483 In [paragraph 451](#), we also suggest that the cross-checking of data with other indicators is good practice in recording and maintaining reliable data records. Good technology and support systems are part of sustaining the capability to deliver services now and in the future ([paragraph 442](#)).

### **Comparative measures**

- 484 Benchmarking includes comparing measures of aspects of performance with comparable measures for other entities ([paragraph 451](#)). Making comparisons requires a clear understanding of both:
- the context – the entity or jurisdiction – being used as a point of comparison; and
  - measurement processes.
- 485 For example, in the criminal justice sector, comparative measurement must take account of:
- the prevalence of crime types influenced by societal differences;
  - the differences in reporting rates of crimes types across different societies;
  - the methods of recording crime; and
  - the methods adopted and resources allocated to solve crime.
- 486 When publishing any benchmarking data, it is useful to articulate the key similarities or differences to assist interpretation of the results. The Department of Corrections 2001 Annual Report includes a number of benchmarks of performance – see, for example, pages 17 onwards at <http://www.corrections.govt.nz/objects/ps/97/697.url.pdf>.



## Relating resource allocation to outcomes

487 [Paragraph 301](#) states that *Setting a desired direction – whether for an entity, a sector or the whole of government – provides the basis for ... allocating resources.*

488 All government departments prepare post-election briefings to an incoming government. Such briefings do not form part of regular external accountability reporting, but are in the public arena. Their publication is one means of reporting.

489 In its 1999 briefing to incoming Ministers, the Ministry of Justice highlighted some issues of resource allocation and linked these back to the overall direction set for the sector. The briefing can be found on the Ministry's web site at:

[http://www.justice.govt.nz/pubs/reports/1999/post\\_elec\\_brief/index.html](http://www.justice.govt.nz/pubs/reports/1999/post_elec_brief/index.html). Section 2.7 of the Briefing relates the setting of direction to the allocation of resources:

[http://www.justice.govt.nz/pubs/reports/1999/post\\_elec\\_brief/chapter\\_2.html#2.7](http://www.justice.govt.nz/pubs/reports/1999/post_elec_brief/chapter_2.html#2.7).

### Reporting well

490 In the discussion above, we have taken extracts from external reports produced by entities in the criminal justice sector relating to:

- setting a strategic direction for the criminal justice sector; and
- reporting developments related to measurement.

491 External reports are also published that cover justice outcomes as a whole – see, for example, the Ministry of Justice *Response to Crime* report at

[http://www.justice.govt.nz/pubs/reports/2000/response\\_crime/index.html](http://www.justice.govt.nz/pubs/reports/2000/response_crime/index.html).

Such reports are not formal accountability documents but they draw on work done by other agencies outside the justice sector that have impacts on crime (welfare, education, and health).

492 Providing an overview of performance in a whole sector would be a useful development. The above report by the Ministry of Justice is an example of beginning to provide this type of information. Our recommendations in [paragraph 531](#) include:

- continue to develop measurement of sector performance; and
- continue to develop the external reporting of overviews of sector performance.

493

There are also overseas reports that present outcome measurement and a performance overview for an entire sector. For example, the *NSW Council on the Cost of Government Service Efforts and Accomplishments – Law, Order & Public Safety* at <http://www.occg.nsw.gov.au/pubs/sea/laworder/cover.htm> reports community outcomes for crime prevention for the related policing, justice and corrections systems.

# Part Five

## Reporting Well

### Which information should you report?

- 501 Performance needs to be well reported, whether the results are good or bad. Reporting well is to ensure that external accountability reports:
- focus on what is important; and
  - give stakeholders a comprehensive view of performance.
- 502 External accountability reports are best taken from the information used to manage the entity (see also [Appendix Three](#)). Collecting data separately for management use and for external accountability reporting:
- marginalises the concerns of external stakeholders;
  - imposes extra cost;
  - makes entity performance difficult for all stakeholders to assess; and
  - creates the risk that managers and external stakeholders will disagree on how the entity is performing.
- 503 Conversely, accountability to stakeholders is strengthened if they know what managers' decisions are based on and agree with that basis for judging performance.
- 504 **You should ...**
- **use the same information that managers use to make decisions as the basis for external accountability reports.**
- 505 A sound direction-setting process leads to internal and external stakeholders agreeing on what is important. Both are then interested in the same information being collected and reported.
- 506 **You should ...**
- **report on the direction-setting process;**
  - **report the assessment of risks; and**
  - **report the trade-offs and choices made and why.**
- 507 An entity needs to forecast its performance as part of the overall context of performance reporting. Specifying expected performance will both assist stakeholders in forming their expectations of the entity and ensure that such expectations are grounded in reality. A forecast of performance should also include an estimate of the resources needed to achieve that performance.
- 508 **You should ...**

- **forecast, and report in advance, expected performance together with the required resources to achieve performance forecasts.**

509 There is a mismatch between annual accountability reporting requirements and the often longer time horizon to achieve even intermediate outcomes. Short-term performance still has to be reported, but without losing the long-term focus.

510 **You should ...**

- **set intermediate outcomes, forecast them clearly and report against them.**

511 Events during the reporting period will often affect entity performance. Other factors cannot be held constant while one entity carries out its activities. Nor are the outcomes of activities always what was planned or intended. As a result, to provide stakeholders with a comprehensive report of entity performance means tracking:

- changes in your environment and plans; and
- the unintended consequences of your activities.

512 **You should ...**

- **report on how plans have changed, and the effect of changes on your results;**
- **measure and report on unintended outcomes; and**
- **state how you intend to address any unintended costs or use unintended benefits.**

513 Reporting well means telling stakeholders the whole story – the bad news as well as the good – and also explaining how future performance will progress.

514 **You should ...**

- **report actual performance compared to forecast, together with intended as well as unintended results, as discussed above;**
- **explain whether performance measures now need to be changed; and, if so**
- **state how stakeholders will be consulted as part of re-setting direction and measures.**

515 Experimenting with non-financial performance reporting requires spare capacity, but we believe that all sizes of entity can report non-financial performance well. Smaller entities can follow larger, leading entities.

516 **You should ...**

- **as much as possible, apply the lessons gleaned from the performance reporting development work of other entities.**

517 Showing the ratio of your achievements to the resources you used will interest everyone.

- 518           **You should ...**
- **report your achievements;**
  - **compare them to forecast intentions;**
  - **report resources used to accomplish actual achievement; and**
  - **compare this to forecast resources required.**

## **You can report in different ways**

- 519           Performance measurement is constantly developing, and some aspects of performance are more easily measured than others. You should match the way you report to the information available and your stakeholders' interests.
- 520           *If your stakeholders have shown a common interest in only certain areas, **then you should ...***
- **try to give them what they want to know, but also maintain a balance of performance information.**
- 521           *If your stakeholders are interested in an aspect about which you have no data, **then you should ...***
- **give a narrative description of activities, and explain whether and how you plan to develop performance measures.**
- 522           *If you need to report on an emerging issue where you have not made forecasts, **then you should ...***
- **report on the issue, on the costs incurred to address the issue, and explain how you will change your performance forecasting.**
- 523           *If you know both the costs and benefits of your activities (and either of these may be more or less objective, and easy or difficult to quantify), **then you should ...***
- **forecast, measure and report how costs compare to benefits.**
- 524           *If there are established performance standards or benchmarks in your sector, industry or profession, **then you should ...***
- **set targets using these standards and report against them.**
- 525           *If your activities are well-established, and you conduct business as usual, **then you should ...***
- **set very specific forecasts and performance measures, and report trends over a longer period.**
- 526           *If you have new activities, pilot projects or selected areas of significance or particular interest, **then you should ...***
- **carry out and report impact analyses of significant activities on selected dimensions.**

## Reporting in a complex world

- 527 Increasingly, public sector activity takes place jointly among entities. Where more than one entity contributes to an activity, each entity must choose what to report. An entity will have to report against its own planned performance and forecast activities. But if it has also contributed to a joint activity, it needs to consider how it will report its contribution. Stakeholders often want a wide overview of performance in a whole sector, and the public sector must increasingly consider how to report across entity boundaries or for a whole sector.
- 528 This requires choice about which outcomes – those desired by the individual entity or those set jointly with other entities – are to be the ones against which performance is reported. An individual entity may also need to consider how to report any decisions about trade-offs made between entities as to which objectives they will jointly pursue.
- 529 Thus, the performance of any one entity is affected by:
- other entities in its sector;
  - the performance of entities in other sectors; and
  - complex interactions among individuals and entities.
- 530 *If* you are sharing activities or outcomes responsibility with other entities, *then you should ...*
- **assess the degree of influence you have over the shared outcomes, and then develop and report appropriate measures; and**
  - **agree which entity will take the responsibility of lead agency, to be reflected in its reporting.**
- 531 *If* you are responsible for monitoring a particular sector, *then you should ...*
- **continue to develop measurement of sector performance; and**
  - **continue to develop the external reporting of overviews of sector performance.**

### **Example: Cross-entity overview reporting**

- 531a In different ways, the reports described below give:
- The direction set by their government – what it regards as its key goals.
  - An overview of the performance measures relevant to achievement towards those goals. The results of performance are reported on these goals, and good or bad progress compared to prior years or targets set is clearly marked.
  - Contextual information to understand the report, such as an explanation for measurement changes.

### **Example: Measuring Up – The Government of Alberta**

- 531b The report published annually by the Government of Alberta, *Measuring Up*, provides core measures on the Alberta government's progress in relation to its goals. The report can be found at <http://www.treas.gov.ab.ca/measuring/index.html>.

### **Example: Measures of Growth – The Maine Development Foundation**

- 531c This report is prepared by the Maine Development Foundation, described as an entity created by the Legislature and Governor over twenty years ago as a private, non-profit corporation with a broad mandate to promote Maine's economy.
- The 2001 report can be found at <http://www.mdf.org/megc/growth01/intro.htm>.
  - Of particular interest is the “adopt-a-benchmark” section of the report, where organisations are encouraged to adopt the benchmarks established. A number of benchmarks have been “adopted” by public bodies.

## **Maximising the quality and minimising the quantity**

- 532 **You must ...**
- **comply with reporting required by statute and applicable reporting standards – but this is a minimum.**
- 533 Managers within the entity receive different amounts of detail, depending on what they manage. Stakeholders reading external accountability reports usually need significant details only.
- 534 General readers can be overwhelmed with too much information. As a result, there is a trend to concise overview reporting, through summary reports, newsletters or stakeholder forums.
- 535 **You should ...**
- **report key points in relation to particularly significant outcomes.**
- 536 In responding to a greater diversity of stakeholders, consider how to help them gain access to information. Because there are multiple audiences for performance reporting there are multiple perspectives, and different audiences require different information.
- 537 Developments in information and communications technology are likely to support improving public access to information. Stakeholders with different interests may be able to undertake customised searches across entity databases. Appropriate security over access to public entities' databases would (of course) be needed.

- 538 **You should ...**
- **use technology developments to improve access to your databases for external stakeholders who want more detail, but without compromising security.**

**Example: Improving access – State of Florida**

538a Florida has an “e-budget” – on the State’s web-site, the budget outline shows program areas and, within each program area, the amount to be appropriated. This can also be viewed by agency. This provides the reader with different views of the amounts to be spent. The web site address is <http://www.ebudget.state.fl.us/home.asp>.

538b An example of how a good search facility is able to support citizen access to information is the Florida Legislature’s Office of Program Policy Analysis and Government Accountability’s “Florida Monitor” site. This site provides reports and reviews conducted by the Office. The search facility for the web site also provides linkages to related sites which provide more detailed information about the results of agency spending. The web site address is <http://www.oppaga.state.fl.us/>.

539 One way to enliven statistical or numerical information is to supply the ‘genuine anecdote’; that is, the illustration of a policy effect that shows succinctly how the policy meets the needs of the targeted population.

- 540 **You should ...**
- **illuminate performance reporting with powerful examples.**

**What are the real incentives for developing better performance reporting?**

541 Whether performance is good or bad, good reporting is required to convey an accurate message to readers. In the paragraphs above, we have suggested:

- some ways to develop reporting; and
- that the need for experimentation may require some public entities to take risks in their reporting.

542 There are intrinsic incentives to report performance well. These include:

- better regard from external stakeholders, through being seen to respond well to the increasing scrutiny of public spending;
- enhanced reputation as a leader within the public sector; and
- recognition (including international recognition) for development work.



- 543 In addition, an entity can derive significant benefits from improved external reporting. Enhanced performance information can be used to manage better, because:
- objectives are clarified;
  - decision-making is based on better information; and
  - responsiveness to a changing environment and stakeholder needs can be improved.
- 544 However, on their own, intrinsic incentives are unlikely to improve performance reporting significantly. Extrinsic incentives need to be considered and designed into accountability systems by those with management or oversight responsibilities. These might include linking resource allocation to good reporting practice.
- 545 Getting incentive structures right is a much-explored topic in the public sector. One view of incentive structures is that positive incentives are needed to encourage and reward development of good reporting, and negative incentives (sanctions) are also needed to penalise poor reporting. Balancing incentives and sanctions requires recognition not only of the behavioural effects on participants but also the consequences for those receiving the services of public entities.
- 546 Removal of any disincentives that inhibit good quality external accountability reporting is also needed. Requirements for reporting externally too frequently or in great detail may discourage the effort needed to report well to stakeholders
- 547 *If you have responsibility for designing incentive systems, **then you should ...***
- **put in place incentives that relate to better reporting of non-financial performance; and**
  - **remove disincentives that deter good reporting.**
- 548 Encouraging good quality reporting of performance also needs champions. Championship requires effort – to maintain a focus on improving the quality and coverage of externally reported performance information. Such effort could include investment in development, aligning incentives with reporting requirements, and providing feedback to preparers.
- 549 **We suggest championship by:**
- **recognition and support from Ministers, in a central government context; and**
  - **support and leadership from agencies with guidance responsibilities, in both central and local government.**
- 550 However, being a “champion” of good reporting of performance also means taking or permitting some risks. Championing performance reporting would require accepting experimentation and allowing flexibility in reporting. There is no limit to what could be reported or

how it could be reported, and experimentation will help performance reporting evolve.

- 551        **We suggest:**
- **support from governing bodies and agencies with guidance responsibilities to encourage experimentation and flexibility in reporting.**
- 552        *If* you have preparation, guidance or leadership responsibilities (including as a Minister) for performance information, *then you should* ...
- **be willing to identify yourself as a champion for performance reporting development; and**
  - **encourage experimentation.**

### **We recommend ...**

- 553        ... **to governing bodies, managers and agencies with guidance responsibilities**, that you:
- include incentives related to improved reporting of performance; and
  - remove disincentives that deter good reporting.
- 554        ... **to governing bodies**, that you:
- act as champions of good reporting of performance.
- 555        ... **to all involved with performance measurement and reporting**, that you:
- be willing to experiment with the development of good reporting, including different ways of selecting and presenting performance information; and
  - engage and experiment with the suggestions made in this part of the report for improving reporting.

### **Case Study: A sector in transition – changes in reporting performance in the health sector**

- 556        At the time of writing this report, new entities and new legislation have been put in place in the health sector, which will be the basis for performance reporting in future. This report does not provide detailed discussion on performance measures in health. In our forthcoming report, *Purchasing Primary Health Care Provided in General Practice*, we will comment on the present state of performance reporting in the primary care area.

- 557 The health sector is in transition in reporting its performance. As a result, the sector is still seeking resolution to many of the associated issues. Our case study discusses the current state of health sector reporting, and is designed to illustrate issues and complexities, rather than good or bad practice. Here, we discuss:
- setting a sector direction; and
  - external accountability reporting on progress towards achieving that direction.

### Setting direction for the health sector

- 558 In [paragraph 301](#), we said that *Setting a desired direction – whether for an entity, a sector or the whole of government – provides the basis for:*
- *determining priorities;*
  - *allocating resources; and*
  - *assessing subsequent progress.*

- 559 Strategies for the health sector are available on the web site of the Ministry of Health, at:  
[http://www.moh.govt.nz/moh.nsf/wpg\\_Index/Publications-Online+Publications+Contents](http://www.moh.govt.nz/moh.nsf/wpg_Index/Publications-Online+Publications+Contents).

- 560 Broad strategies for health are outlined in *The New Zealand Health Strategy* (published in December 2000). The *Strategy* comments on making choices (see page 2) and on inter-sectoral approaches and sector-wide co-ordination (see, for example, pages 4 and 27 of the *Strategy*).

- 561 We support reporting on the setting of direction for a sector, including the **choices made** in the process. We consider that explicit reporting on choices made in setting direction means that stakeholders are better able to make an informed assessment of the direction set (see [paragraph 312](#)).

- 562 New legislation will require annual reporting on progress in implementing health strategies. The *New Zealand Public Health and Disability Act 2000* requires the Minister each year to report on progress in implementing health strategy (section 8(4)).

- 563 These developments create an opportunity to provide an overview of the performance of all participants in the sector – in particular, the extent to which their combined activities have **made progress** in meeting desired health outcomes. As discussed in [paragraph 527](#), stakeholders often want an overview of performance in a sector, and external accountability reports must increasingly take account of performance for a whole sector.

### External accountability reporting

- 564 In this section we cover:

- the diversity of reporting requirements in the health sector; and
- reporting health status and reporting progress towards outcomes.

### **Diverse external accountability reporting requirements**

565 Public entities in the health sector include policy agencies, such as the Ministry of Health and other ministries and departments affected by Vote: Health, and Crown entities (including District Health Boards and other organisations such as Pharmac).

#### *The Ministry of Health*

566 The Ministry of Health reports to Parliament and to its Minister on how it has performed. As a government department the Ministry must both **forecast** its service performance and **report actual performance against forecast**. We would also encourage reporting on how the health sector has performed, for the reasons given in [paragraph 563](#).

567 We consider it important that such reporting is made on a range of elements of performance such as those included in our model in this report. Good reporting on the performance of the sector would include such aspects as assessment of health risks, adaptation of strategy, and the capability of entities in the sector to deliver outputs. Reporting of progress over the sector would also show how the outputs delivered by individuals or entities are contributing to the sector's delivery of the outcomes in the strategy documents.

568 Above in Part Five of this report, we covered some ways to maximise the quality of reporting. Public reporting of the entire sector's progress towards the outcomes in the strategy could incorporate, for example:

- reporting **key points in relation to particularly significant outcomes** ([paragraphs 534 and 535](#)) and
- illuminating reporting with **examples to show how a policy meets the needs of the targeted population** ([paragraphs 539 and 540](#)).

#### *Crown entities*

569 Crown entities in the sector comprise 21 District Health Boards and a number of other statutory bodies such as Pharmac, the Health Research Council, the Health Sponsorship Council, the Mental Health Commission, the Residual Health Management Unit, and the Health and Disability Commissioner.

570 District Health Boards are Crown entities and are required to prepare a **Statement of Intent**. Under previous legislation, hospitals and health services were not required to include a statement of objectives in their Statement of Intent nor a statement of service performance in their Annual Report. The New Zealand Public Health and Disability Act 2000 requires the District Health Boards to prepare a statement of objectives and to report a statement of service performance.

- 571 The range of entities in the sector is diverse – an example of reporting in a complex world (see [paragraph 527](#)). At the time of writing this report, a number of newly created entities are developing aspects of their performance reporting in line with new statutory requirements. Our messages in this report that are relevant to all entities in the sector include:
- use the same information that managers use to make decisions as the basis for external accountability reports ([paragraphs 503 and 504](#));
  - build organisational capability to monitor and report performance, as a significant area for investment ([paragraphs 218 and 219](#)); and
  - consistently encourage and expect best practice in external accountability reporting (e.g. the use of comprehensive models of performance, and well-specified links between outputs and outcomes) ([paragraph 220](#)).

#### *Other entities and individuals*

- 572 There are also non-governmental organisations and initiatives in health-related research and education, which receive public money. The funder of services purchased from non-governmental health service providers is accountable for the quality of services delivered and value for money obtained. Because the non-governmental sector has a role in health service provision, obtaining an overview of sector performance needs to include reporting on the services funded by the District Health Boards.

### **Reporting health status and reporting progress towards outcomes**

- 573 Reporting about health status may have a role in stimulating debate on the relationships among spending of public money, outputs and outcomes in health. Many of the publications by the Ministry of Health are clearly aimed at reporting health status in New Zealand – and this is one element of performance.

- 574 However, much of this is describing the health status of a community, rather than the performance of entities in the health sector. For reporting performance to stakeholders, other information will need to be considered where:
- there is at least some degree of cause-and-effect relationship between activities and the status of the community; and
  - outcomes (including intermediate outcomes) can be influenced by the reporting entity.

### **Reporting well**

- 575 We expect reporting under the new reporting regime to provide an enhanced view of performance, including performance both for the

health sector as a whole and for results across sectors – health and others.

576

Increasingly complex causes for social issues are being addressed by public sector activities that cross entity, and sector, boundaries. For example, the Ministry of Health's *Briefing for the incoming Minister of Health 1999* refers to the issue that "Health behaviours are embedded within social contexts, and intersectoral strategies (for example, Strengthening Families) are necessary to address these causes." (p. 7) As yet New Zealand has little formal external accountability reporting that extends between entities, let alone across sectors. Development of such reporting will be an important contribution to completing the picture of public sector performance. We repeat here our messages to all involved with performance measurement and reporting, to:

- be willing to experiment with the development of good reporting, including different ways of selecting and presenting performance information; and
- engage and experiment with the suggestions made in this report for improving reporting.

# APPENDIX ONE

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## INSTITUTE OF CHARTERED ACCOUNTANTS OF NEW ZEALAND STANDARDS FOR REPORTING PERFORMANCE INFORMATION

External (general purpose) reports must comply with approved financial reporting standards. For example, the Public Finance Act 1989 (PFA) requires the annual financial statements of the Crown, government departments and Crown entities to be prepared in accordance with generally accepted accounting practice, which is defined in the PFA as:

- “2. “Generally accepted accounting practice” means –
- (a) Approved financial reporting standards (within the meaning of section 2 of the Financial Reporting Act 1993) ...;
  - (b) In relation to matters for which no provision is made in approved financial reporting standards ... and which are not subject to any applicable rule of law, accounting policies that -
    - (i) Are appropriate ... and
    - (ii) Have authoritative support within the accounting profession in New Zealand.”

The Institute of Chartered Accountants of New Zealand (‘the Institute’) has a leading role in preparing standards for the quality of external reporting in New Zealand. (Refer to the Financial Reporting Act 1993 for further information regarding the submission of reporting standards for approval to the Accounting Standards Review Board.)

The following extracts are taken from the Institute’s publications relating to external reporting and are **current at the date of publication of this report**.

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### Statement of Concepts for General Purpose Financial Reporting 1993

1.1 This Statement sets out the concepts that underlie the preparation of general purpose financial reports for external users. Such reports may contain both financial and non-financial information...

1.5 This Statement is concerned with *general purpose financial statements* (referred to as “financial reports”). Such financial reports are intended to provide information to meet the needs of external users who are unable to require, or contract for, the preparation of special reports to meet their specific information needs...

3.1 The objectives of general purpose financial reporting are to provide information to assist users in:

- (a) assessing the reporting entity's financial and service performance, financial position and cash flows;
- (b) assessing the reporting entity's compliance with legislation, regulations, common law and contractual arrangements, as these relate to the assessment of the reporting entity's financial and service performance, financial position and cash flows; and
- (c) making decisions about providing resources to, or doing business with, the reporting entity.

Thus financial reporting has an accountability role [parts (a) & (b)] and an information role [part (c)]. The relative importance of these roles may vary for different users and in different sectors. For example, because many public sector entities exercise particular powers, the users of public sector general purpose financial reports may be more interested in accountability...

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## **Explanatory Foreword to General Purpose Financial Reporting 1995**

1.2 This foreword states the responsibilities of members in either the public or the private sector, when preparing or presenting financial reports, or reporting on them...

2.3 Financial reports consist of:

- (a) financial statements;
- (b) non-financial statements; and
- (c) supplementary information which is additional to the information in financial and non-financial statements...

4.2 Financial reporting standards are the primary indicators of generally accepted accounting practice. Conformity with generally accepted accounting practice means:

- (a) compliance with all financial reporting standards applicable to the entity; and
- (b) in relation to matters for which no provision is made in financial reporting standards and that are not subject to any applicable rule of law, adopting accounting policies that:
  - (i) are appropriate to the circumstances of the entity; and
  - (ii) have authoritative support within the accounting profession in New Zealand...



## **Financial Reporting Standard No. 2: Presentation of Financial Reports 1994**

2.1 (a)(ii) ...entities not required by legislation to prepare a statement of service performance are exempted from the requirement to provide a statement of service performance as required by paragraph 5.2(e)...

2.3 This Standard applies to general purpose financial reports...

5.2 The financial report of an entity shall include:...

(e) a statement of service performance (where not exempted)...

### **STATEMENT OF SERVICE PERFORMANCE**

#### *STANDARD*

**11.1 The statement of service performance shall describe and disclose the outputs of an entity. Similar individual outputs may be aggregated.**

#### *COMMENTARY*

11.2 An entity not required by legislation to prepare a statement of service performance is encouraged to include a statement of service performance in its financial report where:

- the entity receives significant revenue intended to benefit third parties without giving reciprocal benefit or consideration to the party providing the revenue; or
- the entity has non-financial objectives of such importance that non-financial performance reporting is significant to users of the financial report.

Not-for-profit entities are strongly encouraged to produce a statement of service performance.

11.3 Where relevant and appropriate for users of the entity's financial report, each output disclosed in the statement of service performance is to be described in terms of the output's:

- quantity;
- quality;
- time;
- location.

The cost of each output is to be described and disclosed.

11.4 The information used to describe service performance is to be selected so as to provide a complete description of delivery of each output (or aggregation of outputs) reported, but without undue emphasis on easily measured dimensions, and without resulting in an overload of only partially relevant statistics.

11.5 For each output disclosed in a statement of service performance, where practical and appropriate, the outcome(s) to which the output is intended to contribute is to be disclosed.

*STANDARD*

**11.6 The statement of service performance shall present both projected service performance and actual service performance.**

*COMMENTARY*

11.7 Projected service performance is described by presenting projected outputs at the beginning of the period which an entity aimed to produce by the end of the period. These projected outputs will often be derived from the annual or corporate plan.

11.8 To report the degree of success in achieving objectives, it is necessary to present both projected and actual results together with full disclosures of any changes in objectives during the period.

11.9 Actual and projected service performance are to be reported consistently with one another. The information disclosed is to be sufficiently precise for performance to be assessed...

# APPENDIX TWO

## A NEW ACCOUNTABILITY?

### “The new public management and a new accountability”

Peter Barberis’ 1998 article<sup>26</sup> discusses accountability in British central government. Of relevance to our report is his diagram of dimensions of accountability. The figure below is adapted from Figure 1 in Barberis’ article, with the adaptations being to replace British with New Zealand terminology.

The figure relates to accountability relationships in a central government context only.

Who	For what	To whom (or what)	How:	To what outcome?
Ministers	Legislation	Public (electorate) Parliament	Elections	Explanation
	Policy		PQs	Information
	Systems		Judicial review	Acknowledgment
	Outputs		Enquiries	Review
	Functions			
Chief Executives	Administrative processes	Select Committees	Annual reports,	Revision
	Value for money	Ombudsmen	Contracts	
	Costs	Audit Office		
		Individual members of public	Public/private ventures	Redress
				Sanction

*Adapted from* Figure 1 on page 467 of Barberis, P (1998), “The New Public Management and a New Accountability.” *Public Administration* 76 (Autumn), pp. 451-470.

Barberis (1998) draws the lines shown to indicate approximate demarcations of accountability. He states (p. 466) that the figure should “be taken as representing an artistic rather than a detailed blueprint. ... The most important principles lie in the notion of disaggregating different dimensions of accountability and in the idea that [public] servants assume a direct, first line responsibility for certain of these dimensions.”

<sup>26</sup> Barberis, P (1998). “The New Public Management and a New Accountability.” *Public Administration* 76 (Autumn), pages 451-470.

Barberis uses the figure to show how different players and different processes will provide different aspects of accountability. Examples of aspects of accountability that may occur are shown in the right-hand column of the figure. These include:

- Giving an explanation. In [paragraph 211a](#) we have called this *giving an account*. An example is for an entity to let primary stakeholders (Parliament, ratepayers) know what is going on;
- Providing information. In [paragraph 211a](#) we use the phrase *being asked to account*, and this might apply in a context such as an entity responding to a Select Committee<sup>27</sup>;
- Reviewing or revising systems or procedures. Our use of the phrase *hold out to account*, in [paragraph 211b](#), carries similar connotations of managerial accountability under review, or of accounting for delivery against an accountability relationship; and
- Granting redress or imposing sanction. Where we have talked of *being held to account*, in [paragraph 211b](#), we have a similar meaning of stakeholders asking for an account and making a decision based on the evidence produced.

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<sup>27</sup>

Note that the Auditor-General is one means (along with, for example, the Ombudsmen, the Parliamentary Commissioner for the Environment, the Health and Disability Services Commissioner, the Privacy Commissioner, etc.) by which stakeholders who lack any other mechanism can request that an entity be *asked to account*. The Auditor-General, when exercising discretionary powers of investigation, is holding an entity to account where a stakeholder is not otherwise able to do so.

This is discussed further in *Public Audit – Achieving Better Public Accountability* which can be found at

[http://www.oag.govt.nz/HomePageFolders/SpeechesPapers/Achieving\\_Better\\_Public\\_Accountability.htm](http://www.oag.govt.nz/HomePageFolders/SpeechesPapers/Achieving_Better_Public_Accountability.htm).

# APPENDIX THREE

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## IMPROVERS' GUIDE

*“My problem is ... I have to report non-financial information externally for the first time – what do I do?”*

This Appendix is to provide guidance about the context of performance reporting and choice of performance measures. But there are no correct answers about what to report, only informed choices. Always remember:

***Whatever you choose to measure will influence people's behaviour, both inside and outside the entity.***

### Get the fundamentals right

***Build on what you are already doing internally.***

- **You are, or should be, already continually monitoring** your environment, stakeholder needs and, where relevant, the Government's desired outcomes.
- **Use the same information that you use for managing the entity.** Inside the entity, you will already be reporting performance in both financial and non-financial terms. All external non-financial performance reporting should come from information used by managers.
- **Use the same measurement systems** to generate information for internal and external performance reporting purposes. Stakeholders will be as interested as you are in internal processes and capability as well as results.

***Don't try to get it perfect first time.***

- Development is an **iterative** process.
- Spend **80% of your energy** on getting the most important 20% right.
- Find out the **most important 20%** by going through direction-setting, measurement and reporting processes.
- **Be prepared to learn and change.** Change to improve your measurement, rather than keeping a poor set of measures just to be consistent with last year.
- **Evaluate** your measurement systems as well as your measures. Use what you find as feedback to enhance the systems as well as to improve on the results.

***Get buy-in before you pay out.***

- **Don't make major investments in large measurement systems** unless you have agreement and acceptance from all major external stakeholders and all key internal managers.

## The context of your performance reporting

### What is your accountability framework?

To whom are you specifically accountable? Appropriate performance reporting enables you to show how your performance delivered on agreements, often with a particular stakeholder. But you will also have stakeholders with other accountability needs. These accountabilities may well be wider than those specified in agreements.

Some guidance on your accountability framework will be available from applicable legislation. Legislation may establish procedures for:

- identifying stakeholders;
- setting direction; and
- forecasting and reporting performance externally.

Your legislation may contain some requirements for ranking goals. It may also contain requirements in respect of external forecasting and external reporting for:

- content;
- format; and
- specific courses of action.

### What direction have you set?

#### (What outcomes do you want to achieve?)

The strategic direction set by your entity will drive your performance reporting. This tells your stakeholders what you have identified as important in:

- goals, trade-offs and choices among possibilities;
- your environment;
- stakeholder needs; and
- attributable outcomes for what your entity is doing.

Desired direction at entity level should be consistent with stakeholders' desired outcomes. For example, for central government entities, stakeholders' desired outcomes include the Government's specified key goals.

A statement of your entity's desired direction is likely to be a long-term outcome. You need to break this down into intermediate outcomes and into short-term deliverables (see paragraph 307). You can then report results annually to show:

- actual short-term results against planned short-term results;
- short-term results compared to desired intermediate outcomes; and

- progress towards intended long-term outcomes.

*What do you already have in place for reporting performance?*

You will already have a set of measures, used internally for management purposes. Your responsibility now is to ensure that your existing measures support external reporting, or to develop appropriate performance measures to do so. Does your set of measures, taken as a whole, fairly reflect the performance of your entity? You will have to state that this is the case in your annual report.

You have, or should have, management practices already in place to manage performance reporting and develop performance measures. These may include:

- setting strategic direction (sometimes part of identifying a vision or mission). This process will assist in setting priorities and developing linkages with other entities and activities;
- risk identification and mitigation; and
- consultation with stakeholders.

Going through these processes will lead you through:

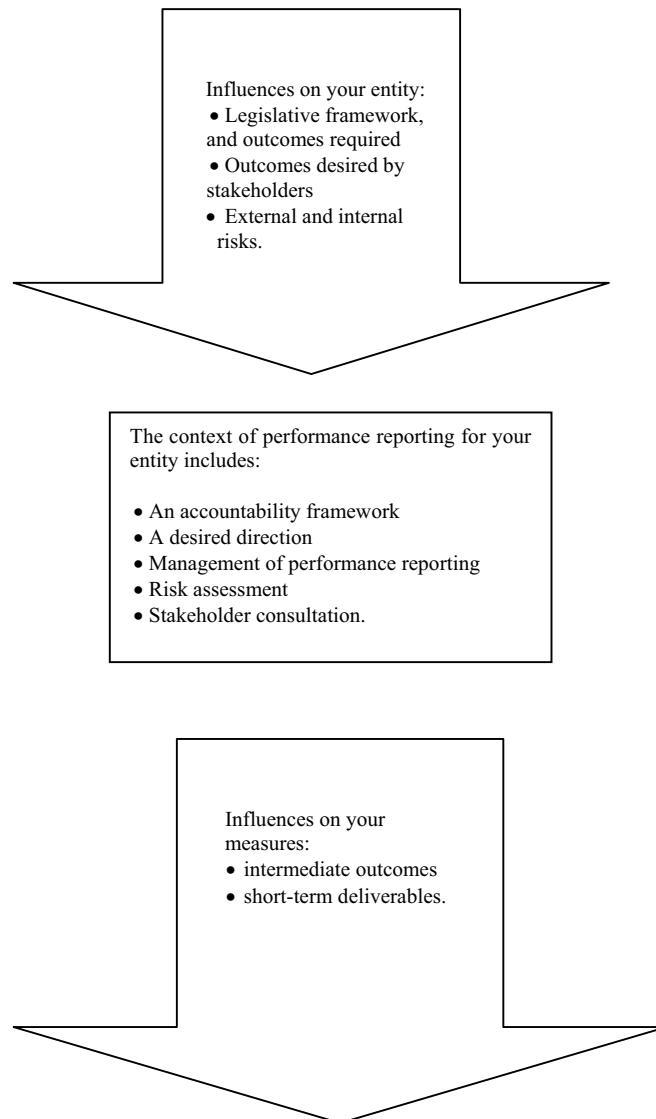
- taking account of the long term in setting direction for the entity;
- reflecting what is important to key stakeholders, and provide some information useful to the needs of other users; and
- building in risk assessment.

We have called Figure 7 *Performance Reporting from the Top Down*. It illustrates that performance measures must be determined in context, and their context is:

- stakeholders' desired outcomes which, through their influence on the entity, will affect the choice of performance measures;
- the accountability framework, with the associated consultation with and reporting to stakeholders;
- the entity's performance management environment; and
- desired outcomes in the intermediate term and the short term.

Figure 7

*Performance Reporting from the Top Down*





## Choosing your performance measures

You are already reporting performance information internally (to management). So you already have:

- internal management information systems; and
- internal reporting that indicates what was done, or what happened, at a level of detail appropriate to those receiving the information.

If you are reporting performance externally for the first time, then more stakeholders will read your reports. They may not be stakeholders who are new to you, but they may be newly acknowledged in your reporting.

Performance measures should generate informed debate. They need to answer the right questions, which could include:

- What are you achieving towards your long-term objectives?
- Did you achieve what was planned as a forecast?
- Did the actual service and costs compare well to the planned results and the funding associated with that level of activity?
- Have you done it well?
- How can you provide feedback from these results to inform your stakeholders and yourselves?
- What might your stakeholders want to know in the future?

### Cost and benefit

Two general constraints on performance measures are:

- that the benefits to the stakeholder of knowing the measure on the one hand exceed the cost to the reporting entity of collecting and reporting the measure on the other hand; and
- that there is a positive effect on entity behaviour from collecting and reporting the measure.

For all data collected, you need to judge whether the benefit from collection exceeds the cost.

### Coping with change

Change to improve your performance measures, but avoid manipulation to improve the appearance of results. Consistency over time in performance measures enhances your ability to report well to your stakeholders.

## Good performance measures are appropriate and reliable (in that order!)

### Appropriate performance measures

An appropriate performance measure is one that ensures accountability between the entity and its stakeholders. Appropriate performance measures are:

- **relevant** to the interests of stakeholders;
- **complete**, covering all significant activities; and
- **understandable**, transparent and traceable.

### Relevant performance measures

Relevant performance measures are those that:

- meet the information requirements of stakeholders; and
- reflect objectives agreed between the entity and stakeholders.

Ask yourself: Are your stakeholders receiving information that enables them to judge your performance according to their interests? You can only answer this question “Yes” if your reported performance measures are relevant.

Consultation is an important means of identifying the information that stakeholders need. Adequate consultation takes account of:

- legislative requirements and accountability needs;
- the concerns of significant user groups; and
- an objective representation of the wider stakeholder community.

The small set of key measures that you need to report will be driven by:

- the aspects of your activities that are really important to your stakeholders;
- the extent to which you can influence them; and
- those where you have the highest relative influence on outcomes.

Data about the state of the community, or about change in the community, may be of interest to stakeholders and you may need to collect and report it. However, what if:

- there is no cause-and-effect relationship between your actions and the state of the community?; or
- outcomes (impacts on the community) cannot be influenced by your entity to any quantifiable extent?

In these instances, measurement of the state of the community does not contribute to measurement of your performance. For reporting your performance to stakeholders, you will need to consider other information.

Performance measures are **relevant** if they report to stakeholders what they both want and need to know about the effects of your activities.

## Complete performance reporting

Your performance reporting to external stakeholders needs to be complete and unbiased. Different stakeholders will have different demands for performance information. For external reporting, you need to make judgements between providing:

- an overview of performance;
- sufficient detailed information to understand aspects of your performance; and
- the minimum quantity but maximum quality of information.

In the body of this report, we cover in detail issues to do with complete performance reporting. We won't repeat them all here. But some general points are worth repeating.

In our comprehensive model of performance used throughout this report (see [Figure 2](#)), we include multiple aspects of performance – risk, strategy, outcomes, outputs, capability and processes. Any one aspect alone is unlikely to provide readers with a complete picture – reporting on all of them would. However, you need to consider carefully which aspects to concentrate on most.

You can report your direction setting process and the assessments formed in that process. These include

- the assessment of *risks* to be faced in working towards outcomes; and
- the *strategies* developed to mitigate risks.

You can consider reporting *outcome measures*, where impacts on communities are directly measured and reported. Both intended and unintended outcomes can be measured, and data collection needs to record a range of both.

- Community conditions or behaviour may be measured.
- Surveys, usage statistics or number of occurrences may provide measurements.
- The time frame of measurement may vary from the immediate to the long term. But the longer the time, the less a direct cause-and-effect exists.

To report linkages between outputs and outcomes, you need to consider reporting:

- the underlying logic of outcomes, outputs and activities (the *intervention logic*);
- *unintended* as well as *intended outcomes*;

- the *intermediate outcomes*, to track progress over time towards overall outcomes; and
- *annual progress* in the context of longer-term progress.

*Output measures* report the characteristics of goods or services produced. Measures for outputs are often taken from five characteristics:

- quantity (“how much?” or “how many?”);
- quality (“how good?” or “to what specification?”);
- timeliness (“when?” or “by when?”);
- location (“where?”); and
- cost (“for how much?”).

Quantity, timeliness and location tend to be easier to measure. Quality and cost are often more difficult to measure.

- Quality includes both customer satisfaction (perceptions) as well as fitness for purpose (technical quality standards, such as whether water is drinkable). You should consider both, as perceptions in the public sector can be as relevant as technically suitable measures.
- Cost measures are almost always allocations, and thus require reliable accounting systems and consistent judgements. Aim for reasonable, supportable (a cause and effect link) and consistent cost allocations.

*Process measures* may be reported on, for example, in relation to:

- completeness – Was a process in use for the entire period?;
- quality – How well did controls operate over the process?; and
- validity – Was the process carried out to an established standard?

*Capability measures* are aspects of productivity requirements such as:

- assets available; or
- personnel capability required.

Measures of the resources available (inputs) compared to the outputs delivered can be used to report an entity’s *efficiency* of resource use.

Finally, you should *forecast your expected performance* and then *report against that forecast*. Providing stakeholders with a forecast assists them in forming their expectations about your future performance.

Performance reporting is **complete** if it covers the important dimensions of all significant activities being undertaken by the entity. Complete performance reporting to stakeholders informs them about progress towards long-term objectives and advises them about the identification and handling of risk, the management of organisational capability and the delivery of outputs.

## Understandable performance reporting

Relevance, completeness and understandability are overlapping attributes of good performance reporting.

Performance reporting is likely to be **understandable** if it:

- has an appropriate level of detail. This means –
  - a small set of key messages;
  - about significant activities and areas of performance.
- includes comparative information. This means data –
  - about performance over time; and/or
  - compared to similar entities; and/or
  - compared to best practice or reliable standards.
- explains the circumstances of entity activities. This –
  - provides a frame of reference for readers;
  - explains both *what* happened and *why*; and
  - enables performance to be judged in context.
- provides interpretative comment. This assists readers –
  - by providing management commentary on performance;
  - to compare performance to expected standards or to forecasts; and
  - to judge whether performance is improving or deteriorating;
- is traceable to agreements with significant stakeholders about entity performance;

and

- avoids jargon and obscure language.

Performance reporting is <b>understandable</b> if it presents key information clearly, in context and at an appropriate level of detail.
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## Reliable performance measures

Reliable performance measures are:

- neutral;
- verifiable; and
- a faithful representation of the characteristic being measured.

Collecting reliable data carries the cost of ensuring that data is accurate, complete, descriptive and unbiased.

Reliable systems for collecting and validating performance data have:

- clear data definitions and quality standards established in advance;
- clear managerial accountability for collecting and validating data;
- effective controls over the collection of data, including timeliness, neutral recording, accuracy and consistency over time; and
- procedures for detection and correction of errors in collected data.

For some types of measures, the reliability of the measure depends significantly on your recording system. For example, when recording data about behaviour or community conditions, the manner in which the data is collected can influence the responses or perceptions of individual respondents.

Assistance should be sought from experts where there are particular or specialised issues of definition of standards, measurement units or scales, or data interpretation.

When developing performance measures, choosing appropriate measures is more important than developing reliable measurement systems. You and your stakeholders need to agree first on the appropriate measures to use. Reliable measurement systems can be built after you have agreement and acceptance from major external stakeholders and key internal managers on what to measure.

Don't forget, when building systems, to take the greatest possible advantage of technology. You may be able to offer stakeholders access to internal databases, although you will need to consider:

- the associated costs and benefits;
- available means of access; and
- security over data.

## **Performance reporting from the bottom up**

We have called Figure 8 *Performance Reporting from the Bottom Up*. It illustrates that:

- the basis of performance reporting both internally and externally should be one set of data;
- a larger set of information is used by managers within the entity; and
- a smaller set of *reliable* and *appropriate* performance information, drawn from information used by management, should be reported externally.

Figure 8

*Performance Reporting from the Bottom Up*

